SMALL BUSINESS IN CANADA

GROWING TO MEET TOMORROW

1989

A REPORT TO PARLIAMENT BY THE MINISTER OF STATE (SMALL BUSINESSES AND TOURISM)

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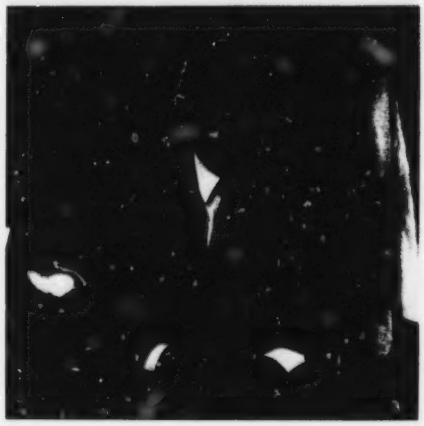
A MESSAGE FROM THE HONOURABLE TOM HOCKIN, MINISTER OF STATE RESPONSIBLE FOR SMALL BUSINESS



Canada is a full participant in the entrepreneurial boom sweeping through the advanced industrial economies. Literally hundreds of thousands of Canadians have taken the exciting step of founding a business. They have taken risks, they have committed their resources, and they have devoted long hours to the success of their ventures. The results have been nothing short of astonishing. Small business in Canada has emerged as a key engine of economic growth and job creation.

Since 1984, every year has seen the creation of more than 150 000 entirely new businesses in Canada. And contrary to conventional wisdom, these businesses have proven to be surprisingly resilient. Over the last decade, more than three quarters of all new businesses survived the crucial first year of operation. About half of the businesses created in 1978 survived the nine years to 1987.

Today, there are approximately 900 000 businesses in Canada of which more than 98% employ fewer than 100 employees. Four of every ten Canadians employed in the private sector work for a small business. What is especially striking is that between 1978 and 1987, small businesses accounted for more than 80% of all net new jobs created in Canada. Canada's small business sector is also a source of innovation and creativity: two thirds of all private sector firms performing research and development (R&D) in Canada employ fewer than 50 people.

This document is designed to review some of the characteristics and achievements of Canada's small-business sector. It reflects the importance that the Government of Canada attaches to this dynamic and growing element of our economy. It is appropriate that both government and the small-business sector should regularly take stock of the situation to indicate problem areas, develop solutions, realize opportunities and, most importantly, to identify the challenges facing us. If we agree on priorities, we can build a strong partnership for action. Even if we disagree, this report can provide a basis for debate which can eventually forge the alliances necessary to prepare for the future.

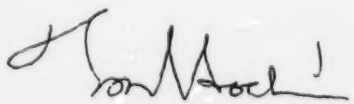
Yet this document is also a tribute to small business. Small business means people–ordinary Canadians–determined to achieve the extraordinary. These pages also carry small business success stories taken from the Canada Awards for Business Excellence, an annual tribute to business achievement. Two new award categories, "Entrepreneurship" and "Small Business" recognize the growing importance of the small business sector and the stories cited in this review are about recent nominees or prize winners in these categories.

The Government, however, does more than simply recognize small-business achievement. It is doing much to promote it. Since coming to power, the Government has pursued economic policies that have created an economic environment conducive to entrepreneurship and small business. It is also providing more immediate forms of assistance. As this review shows, it is making it easier for small companies to deal with government departments and agencies. It is providing more and better information. It is facilitating access to government services. And it is encouraging small businesses to expand their market opportunities, either by making it easier to sell to government or by helping them to export their goods and services.

All of these initiatives reflect the Government's conviction that Canada's future prosperity depends on the continuing health of the small-business sector. Yet the government also knows that small business is facing critical challenges. The third section of this review identifies three areas that are of vital concern.

First, we live in a global economy in which companies must be internationally competitive. Second, the technological revolution allows smaller enterprises to compete but at the cost of keeping up with and implementing ongoing technological change. Third, small business must have access to the skilled human resources that will allow it to master the opportunities inherent in advanced technology.

The Government of Canada understands these challenges and is committed to helping small business respond successfully. It is working closely with other institutions that are active in promoting small business. It gives full weight to the voice of small business as articulated in the associations to which Canada's entrepreneurs belong. And it works closely with the provinces to complement and reinforce their policies and initiatives. In this way, the Government is fashioning the policies and programs that can help small business master today's challenges and prepare for those of the twenty-first century.



The Honourable Tom Hockin
Minister of State
(Small Businesses and Tourism)

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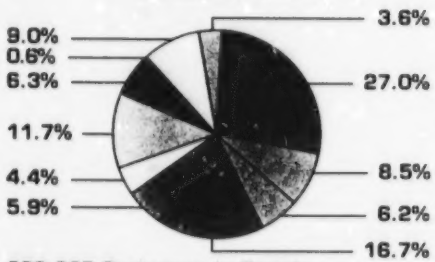
SECTION 1

AN OVERVIEW OF SMALL BUSINESS IN CANADA

Figure 1.1 Sectoral Distribution of Businesses*, 1987



880 237 Businesses in Canada

- Primary**
- Mining
- Manufacturing
- Construction
- Transportation/Communications
- Wholesale Trade
- Retail Trade
- Finance/Insurance/Real Estate
- Community Services
- Business and Personal Services
- Unclassified

* With paid employees.
** Logging, fishing, farming, trapping.
*** Excludes public administration.
Source: ESBO, ISTC.

WHAT IS A SMALL BUSINESS?

The growth of entrepreneurship and business activity in Canada is transforming the economic landscape. New businesses and the growth of established small enterprises have fuelled Canada's recovery from the 1981-82 recession and are responsible for the vast majority of jobs created over the past decade.

There are differing definitions of what constitutes a business, and, in particular, a small business. A business is usually defined as an enterprise with at least one paid employee apart from the owner. It is estimated that by 1988, there were approximately 900 000 such businesses active in Canada.

The term small business is often applied to firms with fewer than 50 paid employees, though in some sectors, such as manufacturing, it is more appropriate to speak of enterprises with fewer than 100 employees as small businesses. Most of the statistics and figures used in this review employ one or both of these definitions. Some of the data used, however, are based on sales revenues rather than the number of employees.

SMALL BUSINESS IN THE ECONOMY

The entrepreneurial boom in Canada has led to explosive growth in the absolute number of companies over the past decade. In 1978, there were 600 000 firms with paid employees operating in Canada. By 1987, this number had jumped to approximately 880 000, an increase of almost 50%. Of this total, more than 98% had fewer than 100 employees.

Small businesses have many different roles to play in the Canadian economy. They contribute a significant share to the country's gross domestic product (GDP). They supply goods and services to larger companies. They are a significant source of employment and growth. And they contribute to the country's exports and its R&D efforts. This section will review some of these contributions.

Intercorp Foods Ltd.

After Renée Unger and her family gave her home-made salad dressings packed in baskets as Christmas presents, the phone didn't stop ringing with friends and even strangers asking to buy them. In 1985, Renée mortgaged everything she and her husband, Arnold, owned to reactivate Intercorp Foods Ltd. Located in Downsview, Ontario, the company focused on producing her unique, all-natural dressings. It wasn't easy. She had nightmares about losing her house. Intensive research was needed to find out how to prolong shelf-life without compromising its natural taste and quality. And just before their product hit the supermarket shelves, a major food producer came out with a three million dollar advertising campaign for a new line of dressings that competed directly with theirs. Renée and her family responded by focusing on marketing the line in small independent stores. Their hard work was made easier by a reputation for quality that spread by word-of-mouth. As a result, most major supermarket chains in the country now carry Renée's Dressings.

THE SMALL BUSINESS SECTOR

SECTORAL DISTRIBUTION

Because small firms constitute more than 98% of all companies in Canada, the general sectoral distribution of all firms is a reasonably good indicator of the sectoral distribution of Canada's small firms (see Figure 1.1).

Service industries accounted for more than two-thirds of all Canadian businesses with paid employees in 1987. This sector includes retail/wholesale trade; finance (including insurance and real estate); transportation and communications; as well as the category of business, community and personal services. Firms in the latter category alone constituted 27% of all Canadian businesses in 1987. By contrast, just under 12% of businesses with paid employees were in the construction sector and only slightly more than 6% were in manufacturing. If enterprises consisting only of the business owner are included in the total, service industries become even more predominant, with more than 70% of all firms classified as part of this category.

SHARE OF SALES, PROFITS, AND ASSETS

Despite the overwhelming number of small businesses in Canada, such firms do not dominate the economy in terms of sales or other key aggregate indicators of business performance. Figure 1.2 summarizes the share held by businesses with annual revenues of less than $5 million in total Canadian sales, profits and assets for 1984 and 1986. According to this sales-based definition, small businesses were responsible for about one quarter of total business sales and profits, and for a slightly smaller share of business assets. The remainder was accounted for by larger firms.

Figure 1.2 Trends in Small-Business* Shares of Total Business Sales, Profits and Assets, 1984-86

* Businesses with less than $5 million in annual revenues.
Source: ESBO, ISTC.

JOB CREATION

In recent years, the Canadian public has become more aware of the crucial role that small businesses play in our economy as employers and creators of jobs. In fact, it is largely because of its vibrant small business sector that Canada has had the best job creation record of all major industrialized economies since 1984.

Firms with fewer than 50 employees accounted for almost 34% of total private-sector employment in 1987 (see Figure 1.3). If firms employing up to 100 people are included, small businesses provided 41.5% of all private-sector jobs in that year. There were also 1 077 000 unincorporated self-employed individuals working in 1987. If they are added to the total, small business accounted for 47.1% of all jobs in the Canadian private sector.

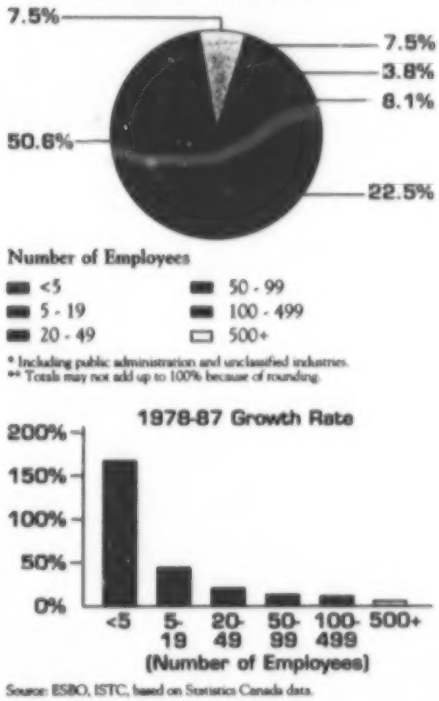
Figure 1.3 also shows that the share of employment held by small business varies considerably from industry to industry. Most of the employment in Canada's primary industries: mining, forestry, farming, fishing, trapping as well as in construction, is accounted for by businesses with fewer than 100 employees. More than half the jobs in business and personal services, and wholesale and retail trade, are also provided by firms with fewer than 100 employees. Roughly one third of all jobs in finance, insurance, and real estate are with small firms. In the manufacturing sector, small firms accounted for slightly less than three jobs in ten in 1987. Industries where small business

Figure 1.3 Small-Business Employment Share, by Industry, 1987

	<50 ALU*	<100 ALU*
Total Private Sector	33.9%	41.5%
Primary	86.5%	91.8%
Mining	17.4%	23.5%
Manufacturing	19.4%	28.1%
Construction	66.8%	77.4%
Transportation/ Communications	18.1%	22.4%
Wholesale Trade	49.6%	60.5%
Retail Trade	45.3%	52.7%
Finance/Insurance/ Real Estate	26.6%	32.2%
Community Services	15.0%	20.0%
Business and Personal Services	51.3%	61.0%
Unclassified	87.5%	94.6%

* ALU is average labour units employed per firm. It is calculated taking firm payroll and dividing it by the average wage in the industry and province where the payroll is earned. The above percentages exclude the 1 077 000 unincorporated self-employed in 1987.
Source: ESBO, ISTC.

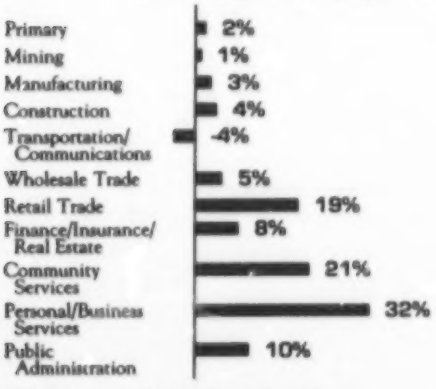
Figure 1.4 New Job Creation by Firm Size*, 1978-87



* Including public administration and unclassified industries.
** Totals may not add up to 100% because of rounding.

Source: ESBO, ISTC, based on Statistics Canada data.

Figure 1.5 Source of New Jobs by Sector, 1978-87 (percent of total net gain in employment)



Note: Totals may not add to 100% because of rounding.
Source: ESBO, ISTC, based on Statistics Canada data.

made the smallest job contribution were community services (which includes health care and educational institutions), transportation, and mining.

More impressive than the share of small businesses in total employment is their remarkable capacity to generate new jobs. In fact, between 1978 and 1987, firms with fewer than 100 employees in manufacturing and fewer than 50 in all other sectors accounted for an astonishing 93% of the net new private-sector jobs created in Canada. Even when government and institutional employers (educational institutions, health care) are factored in, small firms were still responsible for about 85% of new jobs created during this period.

Most of these new jobs, and the fastest rate of employment growth, have come from very small firms (see Figure 1.4). Particularly striking is the fact that more than 50% of jobs created between 1978 and 1987 were in firms with fewer than 5 employees. It is equally impressive that total employment in these very small firms rose by almost 167% during this period.

Firms employing between 5 and 19 people were also very active in creating jobs. They accounted for 22.5% of new jobs between 1978 and 1987. Total employment among firms of this size also increased by a substantial 45%. Larger organizations contributed proportionally less to net new job creation: employment in these firms grew at much lower rates.

Recent decades have witnessed a steady shift in most of the world's industrial economies, away from goods-producing industries and toward the rapidly growing service sector. A rising proportion of both national output and employment is now accounted for by service industries. This structural shift favours small businesses. Because economies of scale are not as important in service industries as they are in manufacturing and because barriers to entry tend to be much lower in services, relatively few obstacles stand in the way of entrepreneurs wishing to start service businesses.

In light of the shift to services, it is hardly surprising that employment growth in Canada has been concentrated in the service sector, with three industries, personal/business services, community services, and retail trade, accounting for more than 70% of all new jobs between 1978 and 1987 (see Figure 1.5). Small firms predominate in two of these three key service industries personal/business services and retail trade.

Even in manufacturing, which has generated few new jobs in Canada over the past decade, small businesses have been responsible for all net employment gains. Between 1978 and 1987, for example, large manufacturing firms with more than 500 employees shed some 13% of their employees, while small firms with fewer than 100 employees registered a net employment gain of 48%.

Another measure which underlines the impact of small business in the Canadian labour market is provided in Figure 1.6. This shows that in 1987, businesses with fewer than 50 paid employees accounted for 35% of the value of all payrolls paid out to Canadian employees (excluding the institutional and government sectors). Firms with fewer than 100 employees were responsible for about 41% of the value of all payrolls in 1987. Since payrolls constitute about 60% of the value of Canada's Gross National Product (GNP) in a typical year, the value of payrolls in businesses with fewer than 100 employees is equal to almost one quarter of Canada's GNP.

EXPORTS

Exports are the life-blood of the Canadian economy. In a typical year, exports of goods and services amount to more than one quarter of our GNP, and up to 3 million Canadian jobs depend on foreign trade. Small businesses are becoming more active traders in world markets, though their share of Canadian merchandise exports remains relatively modest.

It is estimated that companies with sales below $10 million annually account for less than 6% of direct Canadian exports of manufactured goods. The contribution of small business to total Canadian exports, however, is considerably higher, because some small businesses export services and some export indirectly through the sale of components and services to larger Canadian firms, which then export directly. Unfortunately, limitations in the data available make it difficult to offer a precise estimate of the contribution of indirect exports by small business to Canada's overall export performance.

Figure 1.7 provides some additional information about direct small business exports. It reports on the exporting activity of manufacturing firms with annual sales of less than $5 million and less than $10 million. It shows that small manufacturing firms tend not to export. Looking at the most recent year, 1986, only some 3% of manufacturing firms with annual sales below $5 million were exporting. Their exports amounted to 2.4% of the value of their total output and less than 1% of the value of all Canadian manufactured exports in that year. These latter two figures are below the levels recorded in 1979 and 1984. This downward trend, however, is partly due to inflation, which automatically causes a significant number of firms to move into higher sales-revenue categories (i.e., beyond $5 million) each year. Even so, it is clear that few small Canadian manufacturers sell their products to foreign customers.

The limited involvement of small manufacturing firms in direct exporting reflects the fact that both start-ups and established small companies have a natural inclination to focus on the more familiar and accessible domestic market. However, the trend toward a global marketplace and more intense competition for Canadian business at home and abroad means that to be successful, small firms will have to think global at an earlier stage in their development.

RESEARCH AND DEVELOPMENT

High technology and R&D-intensive firms are critical to national competitiveness. A recent study of the relationship of advanced technology to job creation showed that firms engaged in R&D account for a disproportionate share of job growth in the economy. Although small firms perform only a modest amount of the R&D done by Canadian business, their role in commercial R&D activity has been increasing.

In 1987, the latest year for which statistics are available, 67% of the firms performing commercial R&D in Canada had fewer than 50 employees and more than three quarters had fewer than 100 (see Figure 1.8). About 12% of all private-sector R&D spending in Canada was attributable to firms with fewer than 50 employees and 17% was spent by firms with fewer than 100.

Figure 1.6 Small-Business Share of Total Payrolls, 1987

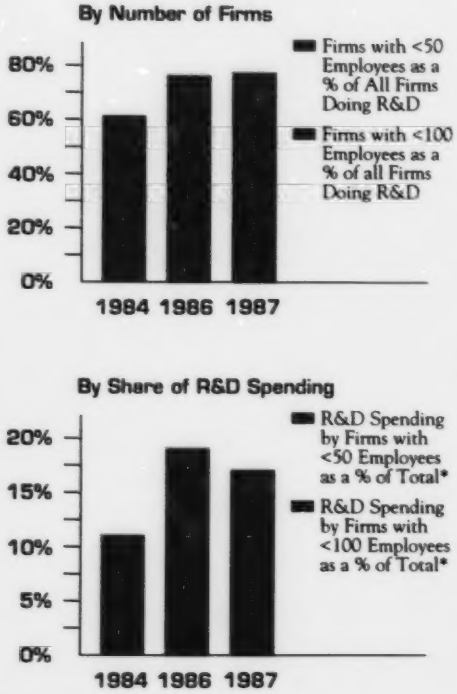
Industry	Firms <50 ALU* % of Total	Firms <100 ALU* % of Total
Primary	87.7%	92.6%
Mining	25.1%	29.5%
Manufacturing	22.5%	29.1%
Construction	72.1%	80.0%
Transportation/ Communications	17.2%	20.8%
Wholesale Trade	55.1%	65.3%
Retail Trade	53.0%	59.9%
Finance/Insurance/Real Estate	32.5%	38.0%
Community Services	15.6%	20.0%
Business and Personal Services	57.6%	65.7%
Unclassified	87.6%	94.8%
Total All Industries**	**35.0%**	**41.3%**

* ALU is average labour units employed per firm. It can be taken as equivalent to number of employees per firm.
** Excluding public administration.
Source: ESBO, ISTC.

Figure 1.7 Exports of Manufactured Goods by Firms with Less than $5 Million and Less than $10 Million in Annual Revenues

Source: Small Business Special Survey, Statistics Canada, ESBO, ISTC.

Figure 1.8 R&D Spending by Small Business


By Number of Firms
80%
60%
40%
20%
0%
1984 1986 1987
Firms with <50 Employees as a % of All Firms Doing R&D
Firms with <100 Employees as a % of all Firms Doing R&D
By Share of R&D Spending
20%
15%
10%
5%
0%
1984 1986 1987
R&D Spending by Firms with <50 Employees as a % of Total*
R&D Spending by Firms with <100 Employees as a % of Total*

*Private sector R&D spending only.
Source: ESBO, Statistics Canada.

Figure 1.9 Business Birth and Survival Rates, 1978-87

	Births as % of 1978 base	Businesses born in 1978 surviving to 1987
Primary	122%	48%
Mining	102%	49%
Manufacturing	79%	55%
Construction	89%	42%
Transportation/ Communications	99%	46%
Wholesale Trade	78%	47%
Retail Trade	89%	44%
Finance/Insurance/ Real Estate	86%	50%
Community Services	79%	71%
Business/Personal Services	128%	40%
All Industries*	**99%**	**47%**

* Excluding public administration
Source: ESBO, Statistics Canada.

It is perhaps more significant that all of these figures represent increases over 1984.

R&D is becoming a necessity for a growing number of smaller companies seeking to remain competitive. In some advanced and rapidly evolving technology sectors, electronic equipment, office machines, and pharmaceuticals, for example, companies have little choice but to spend heavily on R&D, regardless of their size. What is encouraging, however, is that small high-technology firms are prominent among the most dynamic and fastest growing companies in the Canadian economy.

START-UP AND SURVIVAL RATES

The main impetus behind Canada's impressive job creation record in recent years has been the surge of new business ventures. The number of business start-ups increased by more than 35% between 1978 and 1987 and this trend shows few signs of abating. Since 1984, there have been more than 150 000 business start-ups each year, roughly 17-18% of all businesses registered in Canada.

Of course, not all new businesses survive and prosper. While the small business sector as a whole can reasonably claim to be the most dynamic part of the Canadian economy, many small firms lead a precarious existence and many others fail. The rewards of entrepreneurship are accompanied by some very real risks.

In any given year, about 13-15% of businesses disappear. Disappearance, however, is not synonymous with failure. In many cases, businesses are sold by their owners or merged with other firms. Occasionally, a firm's operations may lapse for an interval while the owner's attention is turned elsewhere. And some businesses are wound down upon the owner's retirement. In all such cases, a small company will disappear from view despite the fact that it has not failed as a business venture.

Figure 1.9 charts the birth and survival rates for businesses over the 1978-87 period by type of industry. It is compiled on the basis of corporate tax returns. Companies that start filing returns are held to have been born, and those that continue to file annual returns are held to have survived. All industry sectors have enjoyed robust growth in the number of new businesses (births). In addition, 47% of the businesses created in 1978 survived through to 1987. During this period, survival rates were lowest in business and personal services, construction, and retail trade.

Once created, the most critical time for a new venture is the first year or two. Of the new firms established from 1978 to 1987, 77% survived their first year of operation, 62% made it through their second year, and 52% survived their third year. These figures indicate that the small-business sector is considerably more resilient than conventional wisdom might suggest.

SMALL-BUSINESS PROFILES

It is difficult to generalize or to summarize in a few pages the rich variety of industries, products, services, and business strategies to be found in the small-business sector. However, some idea of the situation facing the typical small business is provided by the company indicators noted below.

AVERAGE BUSINESS SIZE

The average business in Canada had 11.5 employees in 1987 (see Figure 1.10). This was a drop of 2.5 employees from the average in 1978. The downward trend in the size of Canadian businesses holds for all sectors except retail trade. It is especially pronounced in mining, as well as in transportation and communications.

The industries with the most employees per firm in 1987 were manufacturing, mining, transportation, and communications. At the other extreme, industries with the fewest people were primary industries (which includes trapping and farming), construction, and business and personal services.

EMPLOYEES IN SMALL FIRMS

Figure 1.11 compares the age characteristics of employees working in firms with fewer than 50 employees with those of all businesses as of 1986. The age profile of small-company employees resembled that of employees of businesses in general.

Figure 1.12 compares other characteristics of employees in smaller firms with those of private-sector employees in general. It suggests that employees in smaller firms are significantly less likely to be covered by pensions or to have a university education. They are slightly less likely to be employed in managerial or professional occupations, or to be employed full-time. In addition, the wages of employees in smaller firms are likely to be lower. According to a 1987 survey of employment standards in small Ontario firms, however, about half of the small firms interviewed reported that they did provide their workers with non-wage benefits such as group life insurance and dental plans.

Throughout the 1970s and most of the 1980s, Canada's rapidly increasing labour force helped to fuel the growth of small businesses, which found it relatively easy to find new workers. More recently, however, labour force growth has slowed considerably. This trend will continue into the 1990s as the supply of new workers shrinks because of the decline in the relative size of the group aged 15 to 24 within the general population and a slower rise in the female labour force participation rate. As a result, small businesses are likely to encounter greater difficulty in attracting and retaining workers. According to a 1988 survey of its members conducted by the Canadian Federation of Independent Business, shortages of labour are already posing difficulties for small firms: 43% of respondents said lack of qualified workers was a major problem for their businesses. This represents a sharp increase from the 14% reported in a similar survey done in 1982-83.

Figure 1.10 Trends in the Average Number of Employees Per Business, 1978-87

	1978	1987
Primary	1.8	1.6
Mining	50.1	34.8
Manufacturing	49.5	37.6
Construction	5.7	5.1
Transportation/ Communications	33.2	20.7
Wholesale Trade	12.7	11.7
Retail Trade	9.8	10.0
Finance/Insurance/ Real Estate	14.1	13.2
Community Services	26.3	23.1
Business and Personal Services	8.7	7.8
All Industries*	14.0	11.5

* Excluding public administration.
Source: Statistics Canada.

Figure 1.11 Age Characteristics of Small-Business Employees Compared with Employees of All Businesses, 1986

* Businesses with fewer than 50 paid employees.
Source: ESBO, ISTC.

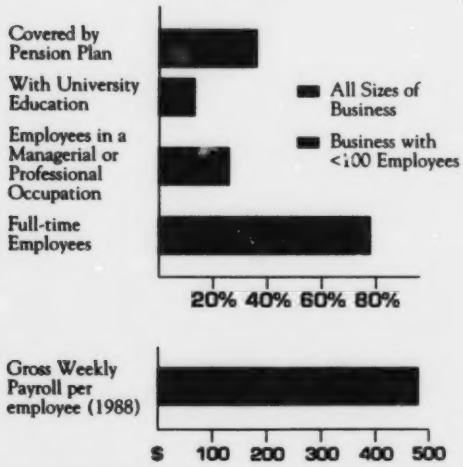
SELF-EMPLOYMENT INCOME

Going into business is risky but it can yield tangible financial rewards. The average annual income of business owners–both incorporated and unincorporated–is approximately 30% higher than the average annual earnings for the Canadian labour force as a whole.

Unincorporated businesses normally provide their owners with smaller incomes than incorporated businesses, because the former are often younger, less developed, and sometimes not growth-oriented. In 1986, owners of unincorporated businesses with paid workers enjoyed incomes that were about 15% higher than the average annual earnings for all workers (see Figure 1.13). The earnings of incorporated business owners were about 60% higher than the average annual income for the labour force in general.

A significant gap remains between the earnings of male and female business owners. For example, in 1985, women owning unincorporated businesses employing paid help earned about 59.4% of the earnings of their male counterparts. Women owning incorporated businesses with paid help earned only 56.9% of what was earned by men in the same position.[1] Only a part of this gap is attributable to the fact that women have only recently started creating their own businesses in large numbers. As a result, the businesses they have founded have not had time to mature fully. Another part of the gap in earnings may be explained by the different family responsibilities assumed by women and men.

Figure 1.12 Selected Characteristics of Employees by Size of Business, 1986


Covered by Pension Plan
With University Education
Employees in a Managerial or Professional Occupation
Full-time Employees
All Sizes of Business
Business with <100 Employees
20% 40% 60% 80%
Gross Weekly Payroll per employee (1988)
$ 100 200 300 400 500

Source: ESBO, Statistics Canada.

GROWTH OF SMALL FIRMS

Relatively few new businesses grow to become large ones. The typical small firm tends to remain small, often as a result of a conscious decision by the owner not to expand significantly. This does not detract from its economic contribution. Such businesses continue to generate a substantial number of new jobs, produce needed goods and services, and remain a potent source of competition in the marketplace.

Between 1978 and 1986, only 7% of the firms with fewer than 20 employees in 1978 expanded to employ more than 50 workers by 1986. What is striking, however, is that this relatively small proportion of quickly growing firms constituted a major dynamic force in the Canadian economy. Over the 1978-86 period, these firms accounted for an astonishing 70% of net private-sector employment growth.

Figure 1.13 Comparing Average Incomes From All Sources, 1985

Average Income, Self-employed	$27 211
Self-employed (Incorporated Businesses)	$33 435
Self-employed (Unincorporated Businesses)	$24 313
Employees *	$22 073

* Paid workers.
Source: *Small Business and Special Surveys* (Special Tabulation), ESBO, Statistics Canada.

SMALL BUSINESS FINANCING

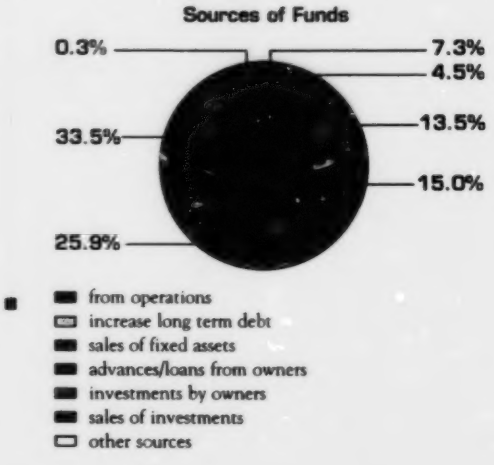
Small businesses consistently identify a shortage of capital as a significant problem, especially in the area of small- and medium-sized equity investments ranging between $100 000 and $500 000. Canadian capital markets, however, are competitive, and the number of financing options available to entrepreneurs has expanded considerably in recent years.

Figure 1.14 reports on the sources and uses of funds by small Canadian corporations with less than $2 million in sales. Between 1984 and 1986, the total capital employed by these small businesses jumped from $24.3 billion to $37.5 billion–an increase of 54%. In 1986, small firms raised about $12.6

billion of their working capital from their internal operations–an amount equal to 33.5% of their total funds. The remaining $24.5 billion (66.5%) was raised from external sources, notably long-term debt ($9.7 billion in new loans were taken on), sales of fixed assets, and advances/loans from the business owners themselves. It is worth noting that equity investment was a relatively minor source of capital.

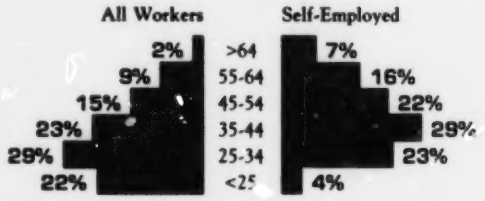
Turning now to how small firms used the funds available to them in 1986, $14.3 billion (38% of all funds) was used to purchase fixed assets, $8.8 billion to retire existing long-term debt, and another $5.7 billion to repay previous advances/loans from the business owners. About $3 billion in dividend income (8.1% of all funds) was also paid out to small business shareholders in 1986.

Figure 1.14 Sources and Applications of Funds for Small Business*, 1986 (percent of total funds available)



* Corporations with annual sales under $2 million.
Source: ESBO, ISTC.

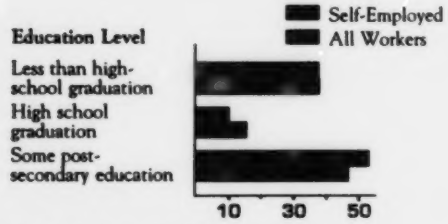
Figure 1.15 Age Profile of Self-Employed Versus All Workers, 1985



13 049 855 Total Number of Workers 1 208 890

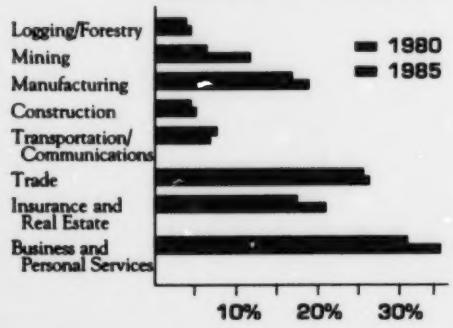
Note: Totals may not add to 100% due to rounding.
Source: Statistics Canada, 1981 Census.

Figure 1.16 Education Profile of Self-Employed Versus All Private Sector Workers, 1985



Note: Totals may not add to 100% due to rounding.
Source: Statistics Canada, 1986 Census.

Figure 1.17 Female Owners as Share of All Business Owners, Selected Industries, 1980 and 1985



Source: Obtained from the 1981 and 1986 Census, *Small Business and Special Surveys*, Statistics Canada.

AGE AND EDUCATION

In 1985, the latest year for which complete statistics are available, there were approximately 1.2 million self-employed business entrepreneurs in Canada, amounting to about 9% of the overall labour force. The total number of self-employed reached about 1.5 million, but a significant number of these people were not owners of businesses with paid help and thus are not addressed here. Growth of self-employment has outstripped that of the labour force throughout the 1980s as an increasing number of Canadians have decided to go into business for themselves.

The age profile of self-employed business owners is summarized in Figure 1.15. Not surprisingly, they tend to be somewhat older, with a median age of 42.1 in 1985 compared to 33.7 for the labour force as a whole. Relatively few (4%) of the self-employed business owners are under 25 years of age. The largest proportion (29%) fall into the 35-44 age group, with another 22% in the 45 to 54 group. Many of these business owners obviously gained experience working in previous careers before becoming entrepreneurs.

Figure 1.16 profiles the general educational backgrounds of self-employed business owners and the labour force as a whole in 1985. Only a slightly higher proportion of the self-employed have some type of post-secondary education.

WOMEN AND ENTREPRENEURSHIP

The single most significant social change in recent Canadian history has been the entry of large numbers of women into the paid work force. Between 1961 and 1986, the female labour force participation rate jumped from 28.7% to 55.1%, while the male participation rate remained fairly stable in the 75-80% range. By 1986, some 45% of all paid workers in the Canadian labour force were women, up from 38% a decade earlier.

As women increased their presence in the paid labour force, they have also come to play a more prominent role in Canada's entrepreneurial boom. As shown in Figure 1.17, women now own almost 22% of all businesses with paid employees. They tend to be considerably more active as entrepreneurs in service industries–retail and wholesale trade, business and personal services, and insurance and real estate–than in transportation and communications, construction, or primary industries. It is interesting to note, however, that their presence is growing in mining. However, the percentage of businesses owned by women has increased overall from 18.7% to 21.6% during the 1980s.

More striking than the increase in the proportion of businesses owned by women is their role in creating new businesses. The proportion of businesses owned by women is growing relatively slowly because they are building on a much smaller base. However, although women comprised approximately one fifth of all business owners in 1980, they were responsible for more than half of the net increase in the number of owner-operated businesses during the period 1980-85.

Figure 1.18 takes another look at the growth of female entrepreneurship in Canada in the 1980s. It shows that across all industries, the number of

female business owners increased by more than 27% during the 1980-85 period, compared to a more modest 6.5% rise in the case of men.

As might be expected, the rapid rate of business formation by women in the 1980s gives them a somewhat younger age profile than men. There are relatively more women business owners below the age of 35 than there are men. Another indicator of the younger age profile of women business owners, and of their more recent arrival on the entrepreneurial scene, is the larger proportion of unincorporated businesses owned by women. Many unincorporated companies are relatively new ventures seeking to build up a track record before seeking incorporation. In 1985, almost three quarters of women business owners were unincorporated compared with two thirds of the businesses owned by men.

ETHNIC ENTREPRENEURS

Canada's ethnocultural communities have emerged as an increasingly significant force in the country's business life. According to the 1986 Census, a quarter of Canada's population is neither of French nor British origin. It is difficult, however, to obtain precise data on the relative size of different ethnic communities because almost one Canadian in three claimed a mixed ethnic origin at the time of the 1986 census. Figure 1.19 lists the 15 largest ethnic groups, based on 1986 census respondents who reported only a single ethnic origin.

A 1986 study by Multiculturalism Canada showed the wide variation Canada's ethnocultural communities display in self-employment (see Figure 1.20). Based on the 1981 Census, the study found that overall, 62.7 out of every 1000 Canadians were self-employed. Self-employment within specific ethnic groups, however, ranged from a high of 149.6 among Jewish Canadians to a low of 17.6 among Canadians of Filipino origin. There were also considerable differences in levels of self-employment between men (102.2) and women (24.5), as well as between those born in Canada (60.0) and those who immigrated as adults (77.4).

It should be added that Canada's ethnocultural diversity can be an important asset. Ethnocultural groups with business skills, knowledge of foreign languages, and familiarity with business practices abroad constitute a significant reservoir of talent that Canada's businesses can draw upon as they seek to penetrate overseas markets. In today's global economy, multiculturalism gives Canada a unique advantage over more homogeneous societies.

Figure 1.18 Growth in the Number of Male and Female Business Owners, Selected Industries 1980-85 (percent growth)

Industry	Male Change over 1980	Female Change over 1980
Logging/Forestry	4.1%	18.6%
Mining	-34.2%	29.8%
Manufacturing	-1.7%	13.2%
Construction	3.6%	20.9%
Transportation/ Communications	6.7%	-5.6%
Wholesale/Retail Trade	9.6%	14.2%
Insurance/Real Estate	0.6%	34.8%
Business/Personal Services	21.8%	47.4%
Total	**6.5%**	**27.4%**

Source: Obtained from the 1981 and 1986 Census, *Small Business and Special Surveys*, Statistics Canada.

Figure 1.19 Canada's Largest Ethnic Groups, 1985* (in 000s)

British	6 333
French	6 093
German	897
Italian	710
Ukrainian	420
Aboriginal	373
Chinese	360
Dutch	352
South Asian	267
Jewish	246
Polish	222
Portuguese	200
Black	175
Greek	144
Hungarian	98
Other	817
Total	**17 707**

* Single responses only. Does not include Canadians reporting mixed ethnic origins.
Source: 1986 Census.

SUMMARY

Figure 1.20 Self-employment Among Selected Ethnocultural Groups, 1986 (per 1 000 workers)

Jewish	149.6
Greek	124.2
Japanese & Korean	109.7
Dutch	107.9
Scandinavian	103.1
German	103.0
West Asian/Arab	99.9
Hungarian	95.1
Czech/Slovak	91.3
Ukrainian	88.1
Russian	81.0
Chinese	72.9
Yugoslavian	71.4
Polish	69.0
Italian	64.5
Finnish	64.1
British	59.1
Indo-Pakistani	50.7
French	48.6
Spanish	48.4

Source: *Highlights of Self-employment of Ethnocultural Groups in Canada*, Report I, Multiculturalism Canada, March 1986.

Canadians from all parts of the country have taken up the challenge of entrepreneurship. Our small-business sector remains astonishingly dynamic and resilient. About half of the small businesses started in Canada survive at least nine years, and about half of the new private sector jobs in Canada were created by companies with fewer than 5 employees. Small business has been and continues to be a decisive factor in Canada's overall economic performance.

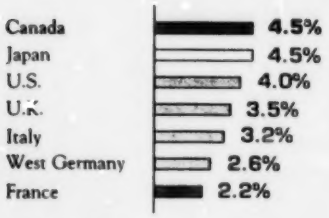
ENDNOTES

[1] *Enterprising Canadians: The Self-Employed in Canada* (Statistics Canada, 1988) Table 24, p. 181.

SECTION 2

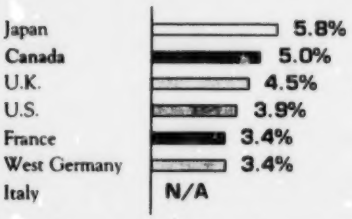
THE CLIMATE FOR SMALL BUSINESS IN CANADA

Figure 2.1 **Economic Growth, 1983-88 (average annual compound growth in real GNP/GDP)**



Source: OECD

Figure 2.2 **Real Economic Growth, 1988 (growth in real GNP/GDP)**

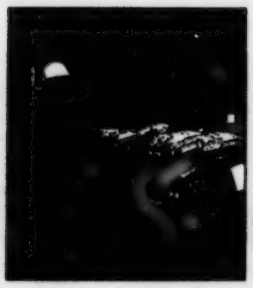


Source: Department of Finance, *Quarterly Economic Review, Annual Reference Tables* (June 1989), Figure 3.90.

The success of entrepreneurs depends above all on their own efforts and ingenuity. But governments can have a significant influence on the business environment through their policies and overall management of the economy. Government policies can strengthen the role of market forces, control inflation, stimulate investment, or make risk-taking more attractive. In doing so, government improves the economic climate for entrepreneurs.

Yet government can do more than simply create a favourable economic environment for small business. It can make vital information available to entrepreneurs. It can deliver programs to help small businesses plan strategies, access financial assistance, acquire new technologies, and develop new markets. And it can provide advice and training to improve the human resources available to small companies.

Help for small business does not mean intervention or interference. The Government of Canada is committed to giving small business the maximum freedom possible to pursue its own commercial objectives. Moreover, the focus of recent federal efforts has been to simplify procedures, reduce paper work, and provide direct personal assistance to those who want it. Local contact points provide a convenient access route to the information and assistance available through the federal government. In addition, that contact occurs through individual officers assigned to specific clients giving government programs a welcome human dimension.



Park City Products Limited

Nobody understood the challenge better than Bob Flockton and Jim Neumann when they bought Winnipeg's Park City Products Limited from Beatrice Companies Inc.; after all, they'd been managing the dog and cat food manufacturer for more than a decade. "Our choice was to increase productivity or die," says Neumann. "As a small manufacturer we had to prove our product is as good as the big multinationals. We took a company capable of making a specific product and made it competitive with many others. We doubled our capacity (to about 11 000 tonnes) in six months, expanding to the tune of about $750 000 over three years." Sales have increased, and expansion continues: they want to double production again by 1991.

CANADA'S ECONOMIC PERFORMANCE

A STRONGER ECONOMY

By virtually any measure, Canada's economy has been one of the most dynamic in the world in recent years. Many Canadians apparently do not realize how well our economy has performed in relation to our main trading partners.

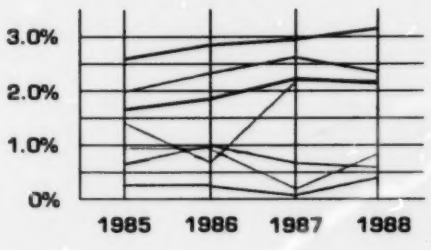
The facts speak for themselves. The Canadian economy is now well into its seventh consecutive year of recovery from the severe recession of 1981-82. Since then, Canada and Japan have enjoyed the fastest rate of economic growth of all major industrialized countries. Real economic growth in Canada averaged 4.5% per year between 1983 and 1988 (see Figure 2.1).

In the most recent complete year, 1988, Canada ranked second among the seven leading industrial countries in economic growth, slightly behind Japan (see Figure 2.2).

Canada's job creation record has been equally impressive. As summarized in Figure 2.3, the rate of employment growth in Canada has been unmatched by any of the other seven major industrialized countries during each of the past four years. In 1988, the number of jobs created rose by 3.2% in Canada, compared with an average of only 2.1% for the group as a whole.

As shown in the previous section, most of these new jobs have been created by small businesses. Canada's recent exceptional job creation record bears witness to the talents and persistence of our entrepreneurs at a time when they have been faced with increasing global competition both at home and in foreign markets.

Figure 2.3 Comparing Rates of Job Creation, 1985-88 (annual percentage increase in total employment)



- Canada
- U.S.
- Japan
- West Germany
- France
- U.K.
- Italy
- Weighted average*

* Averages for seven major countries weighted according to their respective GNP/GDP shares in 1982.
Source: Department of Finance, *Quarterly Economic Review, Annual Reference Tables (June 1989)*, Figure 3.90.

IMPROVED INTERNATIONAL COMPETITIVENESS

The strengthening of Canada's economy since 1984 has attracted international attention. Greater inflows of foreign direct investment are one sign of this. Net direct investment inflows reached some $4.8 billion in 1988, up from $1.7 billion four years earlier. This influx has made more capital available to expand capacity, enhance technological capabilities, establish new enterprises, and improve overall productivity. As a result, there are signs that Canadian business is becoming more efficient and more competitive.

This improved competitiveness is reflected in international business opinion. For example, in its recent report, the prestigious World Economic Forum (WEF) analyzes the success of 33 countries in providing their industries with a competitive environment in which to conduct international business.[2] In 1988, Canada ranked fourth overall, an improvement over 1987 when it ranked 6th, and 1986 when it was 11th (see Figure 2.4). Canada's ranking for 1988 was the highest it has ever achieved in this survey.

The WEF's experts judge the competitiveness of national economies based on 292 separate criteria that are grouped into ten major factors. Their assessment of Canada's relative standing in these ten areas is noted in Figure 2.5. Canada rates highest for the quality of its human and natural resources. According to the WEF, Canada does less well in the areas of financial dynamism, outward orientation of the business community, and innovativeness.

Figure 2.4 Ranking International Competitiveness (top 15 countries)

Ranking*	Country
1	Japan
2	Switzerland
3	United States
4	**Canada**
5	West Germany
6	Finland
7	Netherlands
8	Sweden
9	Norway
10	Australia
11	United Kingdom
12	Denmark
13	France
14	Belgium
15	Austria

*According to the World Economic Forum.
Source: *The World Competitiveness Report*, IMEDE and the World Economic Forum (1989).

FRAMEWORK POLICIES TO PROMOTE ENTREPRENEURSHIP

Robust economic growth and improved competitiveness are a reflection of the federal government's determination to remove impediments to private-sector growth and strengthen the role of market forces in the Canadian economy.

The Government's approach incorporates four core objectives: to expand the opportunities available to the private sector to create wealth and jobs in all regions; to foster a more entrepreneurial business environment in all parts of Canada; to remove obstacles to investment and growth; and to encourage adaptation to economic and technological change.

STRATEGY FOR ECONOMIC GROWTH

More concretely, the Government's strategy for economic growth has consisted of the following main policy thrusts:

- controlling inflation;
- controlling the public debt through lower deficits;
- lessening government's role in the economy by deregulating key sectors and selectively privatizing government assets and Crown Corporations that no longer serve a public policy purpose;
- improving Canada's access to foreign markets and strengthening the capacity of Canadian business to penetrate those markets;
- increasing public and private investment in human-resource development and skills preparedness;
- increasing incentives to work, save and invest by reducing personal and corporate income tax rates and introducing a Goods and Services Tax; and
- stimulating private-sector investment, entrepreneurship and new business formation in every region.

Since 1984, the Government has acted in all of these areas. Inflation has been kept low and despite recent pressures, the Government is determined to prevent a sharp resurgence because of the serious disruptions to business confidence and planning which inflation brings.

Responding to more market-oriented government policies and Canada's strong economic performance, business start-ups and investment have both risen in recent years. Real business non-residential investment jumped almost 9% in 1987, rose a further 17.8% last year, and has remained on a strong growth track in 1989. Similarly, the number of self-employed Canadians has grown almost twice as fast as the overall labour force since the early 1980s. Both of these increases have been part of Canada's recovery from the recession of 1982 and its ongoing economic expansion.

CONTROLLING THE FEDERAL DEFICIT

Although the federal deficit and rising national debt remain a major concern, firm corrective action has been taken. Federal spending on programs grew by less than the rate of inflation between 1984-85 and 1988-89. As a share of GDP, federal program spending has fallen from 19.5% in 1984-85 to an expected 16% in the current fiscal year. And the medium-

Figure 2.5 How Canada Scores on Ten Factors Affecting International Competitiveness*

Factor	Canada's Ranking
Human resources	2
Natural resources	2
Economic dynamism	3
State interference with business	3
Industrial efficiency	4
Dynamism of market	4
Social/political stability	6
Financial dynamism	11
Outward orientation of business	14
Innovativeness	15

* Ranking relative to 32 other countries (22 developed countries and 10 newly industrialized countries).
Source: *The World Competitiveness Report*, IMEDE and the World Economic Forum (1989).

term strategy outlined in the April 1989 budget will cut the deficit in half by 1993-94, while the debt/GDP ratio will stabilize in 1990-91 and decline over the medium term.[3]

DEREGULATION

Since 1984, the government has moved to reduce the burden of regulation and strengthen the role of market forces in key sectors such as energy, transportation and financial services. In addition, elimination of the cumbersome regulatory process associated with the Foreign Investment Review Agency and its replacement with Investment Canada has streamlined the process for screening foreign investment and boosted Canada's standing in the eyes of international investors.

PRIVATIZATION

The Government has also sold assets and Crown corporations that do not meet essential public policy needs. Through its privatization program, the government has already sold assets worth $5 billion in all or part of 17 public corporations and has dissolved eight others.

TRADE LIBERALIZATION

As a result of the free trade agreement (FTA) which came into effect on January 1, 1989, Canadian business now enjoys better and more secure access to the vital U.S. market. The government also attaches a high priority to improving Canada's access to other foreign markets. For example, it is vigorously pursuing this objective through the Uruguay Round trade talks under the auspices of the General Agreement on Tariffs and Trade (GATT). It is also pursuing other initiatives aimed at boosting Canada's exports to the European Community and the fast-growing Pacific Rim economies.

THE TAX ENVIRONMENT FOR SMALL FIRMS

Owning a business carries significant risk for the prospective entrepreneur. Those who decide to take the risk and start a small firm expect that the income tax system will facilitate raising capital, allow them to reap the rewards of their efforts, and give due recognition to the vital role of income in the viability of small enterprises.

At the same time, Canadians continue to demand a wide variety of high-quality public services from the federal government. This means that the government must find ways of paying for these services and programs through taxation. In this context, the federal government is committed to ensuring that Canada's small businesses receive fair and equitable tax treatment.

Due in large part to low federal and provincial tax rates on small-business income, the burden of income tax on small firms operating in Canada is actually lighter than in most American states.[4] The effective federal small-business income tax rate is approximately 12.8%, about half the rate charged to larger manufacturing firms.

The federal government helps small business with a variety of other direct and indirect tax-related measures such as:

- A lifetime capital gains exemption of $500 000 for investments in shares of small Canadian-controlled private corporations (CCPCs);
- incentives to encourage pension funds to invest in small businesses by allowing them to invest $3 in foreign investments over and above the established 10% limit for every $1 they invest in qualifying small- and medium-sized private Canadian businesses;
- a federal tax credit of $1 (up to a total of $700) for every $5 invested by individuals in venture capital funds;
- deductions against income from other sources for allowable business investment losses on investments in Canadian-controlled private corporations;
- increased contribution limits for individual pension plans and a relaxation of the rules governing Registered Retirement Savings Plans and Registered Retirement Income Funds which provide that up to 50% of the assets in these plans can be invested at arm's length from the plan's beneficiary in small- and medium-sized Canadian controlled private corporations;
- federal tax credits of 35% (as compared to 20% or 30% in certain regions granted to larger R&D performers) are available to R&D performing CCPCs eligible for the small business deduction.

TAX REFORM

In 1987, the Government began a major reform of the income tax system. This involved lowering personal and corporate income tax rates while broadening the tax base by reducing the size of various preferences and exemptions. These reforms have improved incentives for economically-efficient business decisions and increased the overall fairness and neutrality of the tax system.

GOODS AND SERVICES TAX

The Government is proposing to replace the current federal sales tax with a new Goods and Services Tax (GST) on January 1, 1991. The existing sales tax is almost universally recognized as irrevocably flawed: it is hidden, it gives foreign manufacturers a competitive advantage over Canadian industry, and it has become almost incomprehensibly complex. The Government proposes to set the GST at a rate of 9% (compared to 13.5% for the existing manufacturing tax). In implementing the GST, measures will be adopted to minimize the burden of compliance for small business. For example, the small traders exemption will allow small businesses with annual sales of less than $30,000 to remain outside the GST system. In addition to streamlined accounting systems and less frequent filing requirements than those applicable to large firms, small business will also be provided with an administration fee of up to $600 for costs incurred in collecting the tax. The Government will also provide a 100% capital cost allowance for electronic point of sale equipment and related inventory control systems purchased before 1993.

EASING THE PAPERBURDEN

One of the complaints most commonly voiced by entrepreneurs concerns red tape and the paperburden imposed by governments. In early 1987, following a major federal-provincial-territorial study and lengthy consultations with the private sector, the Government announced the Small Business Paperwork Reduction Action Plan. This on-going campaign requires federal departments and agencies to develop annual paperwork reduction plans for small business clients. To ensure the effectiveness of these efforts, an advisory committee composed of representatives of small business associations was created to advise the Minister of State Responsible for Small Business on the paperburden and on the appropriateness of each department's annual plan.

Progress in simplifying forms and streamlining requirements imposed on companies has been made. Statistics Canada, for example, has eased the paperburden for small businesses by shifting from special surveys to tax data. In addition, firms with gross business incomes below $250 000 are no longer required to supply Statistics Canada with annual financial data, and only minimal data are required from firms with incomes between $250 000 and $1.05 million. Supply and Services Canada has instituted a one-stop sourcing registration system for prospective supplier firms as well as a short-form contract that is now used in a vast majority of cases. Appendix B contains a list of the paperwork reduction initiatives undertaken recently by various federal departments.

The Upper Canada Brewing Company

"I couldn't give up - I was in up to my neck and all my friends were relying on me," says Frank Heaps, president of Upper Canada Brewing Co. "Due to a combination of personal pride and stubbornness, we hung in — you get to a point where you live off your own lack of objectivity, where you persevere regardless of whatever advice or counsel other people give you." That perseverance has paid off. Established in 1985, the Toronto brewery is the largest of Canada's cottage (micro) brewers. By meeting the strict Bavarian Purity Law of 1516, it has become the first North American brewer to export into Germany. This helped to clinch its superior reputation in a small, upscale market at home: "Knowledgeable beer drinkers, natural food enthusiasts, young professionals, and college groups — all these consumers demand quality. For them price is not an issue." says Heaps. Upper Canada is also exporting to Holland, Belgium, Luxembourg, and the U.S.

THE GOVERNMENT AND SMALL BUSINESS

The federal government has undertaken a concerted effort to make itself more available to small business and to simplify procedures. It is no secret that small business often finds dealing with government to be difficult and time-consuming. In response to such perceptions, the government has restructured the departments and agencies responsible for delivering programs at the local level. At the same time, the activities of various departments are being harmonized and coordinated. As part of its ongoing efforts to minimize delay and improve program delivery, the federal government continues to seek the advice and opinions of business associations, the provinces, and individual representatives of the private sector.

INDUSTRY, SCIENCE AND TECHNOLOGY CANADA

One of the principal advocates working for small business in the federal government is Industry, Science and Technology Canada (ISTC). The department has been given a broad mandate to promote the international competitiveness, technological capabilities, productivity, and efficiency of Canadian industry. As part of this broad mandate affecting all Canadian businesses, whatever their size, ISTC has been given a specific mission to "develop and implement national policies to foster entrepreneurship and the start-up, growth and expansion of small businesses."

ISTC also has a role in promoting and supporting the marketing of Canadian goods, services, and technology at home and abroad. And it promotes investment in Canadian industry, science, and technology. Most of ISTC's functions relate to small business in one way or another.

The creation of ISTC has been accompanied by a conscious effort to get closer to the small- and medium-sized firms that do not always have the resources to find their way to the many services offered by government. To carry out this part of its mandate, therefore, ISTC will use its regional offices as focal points for the delivery of information and services to small businesses. Local officials will adopt the role of account executives helping individuals to access information, obtain referrals, and apply for program assistance through one local contact point. For a list of ISTC regional offices, see Appendix A.

The account executive approach at the local level reflects the government's new emphasis on providing services and information in the community. Within the Government, the Minister of State (Small Businesses and Tourism), and ISTC's Entrepreneurship and Small Business Office (ESBO), have a responsibility to ensure that the interests of Canada's small businesses are represented and reflected in the actions and policies of ISTC and other federal government departments and agencies.

REGIONAL DEVELOPMENT

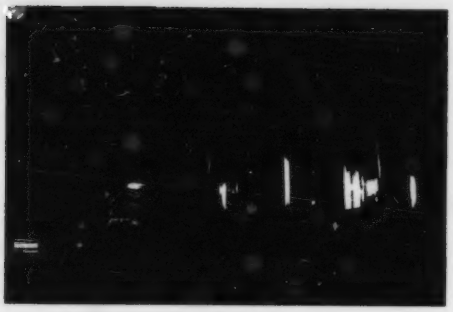
Small business plays a critical role in regional development. Statistics show that small business activity is distributed across Canada in direct proportion to the distribution of the population at large. Also, studies have shown that the resilience of small business has played a critical role in sustaining regional economies, especially during economic downturns.

The federal government has recognized the regional importance of small business in the mandate it has given to several new organizations focused on regional development. All of them offer significant help to small businesses. And all of them reflect the government's conviction that programs to encourage industrial development and help small businesses to grow are more effective when delivered at the community level. A local orientation allows government services to be focused on specific regional concerns, it permits greater flexibility, and it fosters increased responsiveness. The most important federal regional programs are delivered through three organizations: Western Economic Diversification Canada, the Atlantic Canada Opportunities Agency, and ISTC itself (see Appendix A for further details).

Western Economic Diversification Canada (WD) covers the four western provinces and seeks to encourage activity outside of traditional resource-based industries. In carrying out its mandate to encourage the development of new products, technologies, and markets in the western provinces, WD provides financial assistance to projects that contribute to the diversification of the western economy; helps businesses to find the most appropriate source of government assistance for their projects; and acts as an advocate for the West in national economic decision-making. Although not exclusively geared to small businesses, WD programs benefit many smaller companies. Operated and managed in the West under flexible guidelines, WD does not use application forms. Companies usually provide a brief written description of their proposal for review by a project officer who then discusses it with them. Even if the project does not fit WD criteria, the officer may still find other sources of assistance for the applicant.

Delta Transformer of Canada Ltd.

Though its started out as a small business, Delta Transformer of Canada Ltd. no longer corresponds to that description. Sales for 1988/89 are expected to reach $12 million and Delta now employs approximately 125 people compared to eight employees only six years ago. It was a daring leap and most people predicted a crash. When they founded their company in Granby, Quebec, Roland Pelletier and his three partners were entering a saturated market dominated by fiercely competitive multinationals. Their plan was to sell quality transformers at slightly lower prices. Their plan was met with a good deal of skepticism. When first year sales came to only half of the projected $1 million, the banks closed their doors to them. But determination and sacrifice paid off. Shareholders forwent payment for work, the partners worked without salary, the employees worked 15-hour days and even donated time, and major electrical suppliers made special concessions. As a result, the firm turned the situation around. By 1986, their third year of operation, sales reached nearly $5 million — an increase of almost 1000%. Roland Pelletier attributes the company's success to a tried and true formula: quality products, service, hard work, determination to succeed, and the immediate reinvestment of every dollar of profit. Key additional factors were good employer-employee relations and a management policy that gave employees an opportunity to share in the profits.



The Atlantic Canada Opportunities Agency (ACOA) fosters development in the four Atlantic provinces. Small business has traditionally been and remains an important part of the region's economy. ACOA is based on the principles of partnership, shared risk, investment, and working with all levels of government to promote the interests of the Atlantic region. ACOA cooperates with the private sector, provincial and municipal governments, universities, and industrial commissions on programs to develop the region. It acts as coordinator for the efforts of all federal government departments with an impact on the Atlantic region. It also promotes Atlantic interests in the formulation of federal policy.

From the viewpoint of small business, ACOA's most important function is its Action Program, through which small- and medium-sized businesses can obtain direct financial assistance, loan guarantees and interest buy-downs to modernize, expand, design a new product, develop technology, or carry out feasibility and marketing studies.

Central Canada: ISTC retains responsibility for regional development in Ontario and Quebec. Its objective is to promote economic development in areas of Quebec and Ontario where low incomes and slow economic growth prevail, or where opportunities for productive employment remain inadequate, to emphasize long-term economic growth and to foster the development of small- and medium-sized business. In Northern Ontario, FedNor is a government agency designed to spur economic growth through a range of assistance programs mostly aimed at small business. In Quebec, the main vehicle of government assistance is the Canada-Quebec Subsidiary Agreement on the Economic Development of the Regions of Quebec, signed in June 1988. The Agreement provides for federal and provincial assistance to both the central and the resource regions of the province. See Appendix A for relevant programs.

The role of the regional organizations goes beyond providing funding for market development, technological innovation, diversification and general business development. They are responsible for coordinating federal and regional economic development approaches and they directly manage a number of subsidiary agreements under the Economic and Regional Development Agreements (ERDAs) and successor programming. They also provide a full range of business-oriented services to the communities within their jurisdictions. Many of the programs and incentives delivered by these agencies are specifically tailored to assist small businesses. Furthermore, they administer the Small Businesses Loans Act in their regions.

For additional details of regional development initiatives, see Appendix A.

THE NATIONAL POLICY ON ENTREPRENEURSHIP

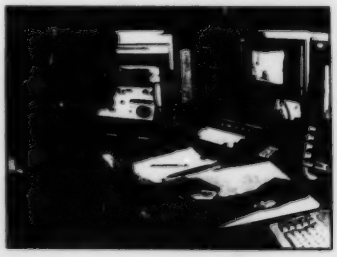
The government has created an economic environment conducive to entrepreneurship. It has created new federal institutions with a specific mandate to help entrepreneurs. The third element in the government's drive to improve the climate for small business in Canada is the National Policy on Entrepreneurship.

Canada was built by entrepreneurs – people of vision and energy, determined to make their dreams come true. The future, however, will be just as demanding as the past. To succeed in a highly competitive world, Canada must encourage Canadians to pursue the opportunities of entrepreneurship, it must promote the creative energies of its small businesses, it must nurture a dynamic entrepreneurial culture ready for tomorrow's challenges.

Guided by this conviction, the federal government announced the National Policy on Entrepreneurship in August 1988. It has three basic objectives. First, it promotes entrepreneurship, especially among groups such as youth, women, natives, and the disabled, who are less well represented among Canadian business owners. Second, it nurtures entrepreneurship among existing small- and medium-sized businesses, helping them to grow and prosper. Third, it removes obstacles to entrepreneurship, particularly those which arise from government policies and activities.

To achieve these general objectives the Government has already undertaken numerous concrete initiatives as part of the National Policy on Entrepreneurship. The federal government has already drawn up an agenda and an action plan to promote entrepreneurship. The publication of this review of small business in Canada represents one element in this action plan.

The Government has also initiated a series of consultations across the country. Designed to gather opinions and suggestions from those interested and active in promoting entrepreneurship, the consultations culminated in a National Forum on Entrepreneurship held at Quebec City in June 1989. The Forum identified issues and developed an action plan involving a partnership between government and the private sector to promote and support Canadian entrepreneurship.



The Image Group Canada Ltd.

Wilson Markle has established his Toronto firm, The Image Group Canada Ltd., as one of the fastest growing film production studios by developing Colorization, the first commercially viable way to convert black and white films into coloured videotapes. His first colorized classic film was broadcast on the ABC Evening News, arousing the interest of broadcasters, owners of film libraries, film buffs, and investors. The Image Group has since received an Emmy for Outstanding Technical Achievement for the Colorization process. The firm supplied NBC with computer graphics animation for the Seoul Summer Olympics and has produced 138 episodes of McHale's Navy in just over 14 months. This now makes Colorization the largest producer of television programming in the world, ever.

Similarly, the federal government has entered into discussions with provincial governments on possible initiatives in the area of entrepreneurial action. To create a strong entrepreneurial culture in Canada, courses on entrepreneurship should be available in the school systems of every province.

Public awareness is vital to the development of an entrepreneurial culture in Canada. The government has initiated a communications strategy to raise awareness of entrepreneurship and to increase understanding of the positive contribution of entrepreneurs to this country's economic and social well-being. The Awareness Project is unique to Canada. Related to this, the Entrepreneurship Awareness Program offers contributions to assist non-profit organizations in undertaking activities to promote entrepreneurship. As a result, Canada will build a culture which supports entrepreneurs and encourages entrepreneurial activity as an employment and career option.

Another important element in the National Policy on Entrepreneurship is the creation of a non-profit National Entrepreneurship Development Institute (NEDI), driven by the private sector. The Institute will serve as a national focal point and clearing house for information about entrepreneurship. It will foster entrepreneurship education by sensitizing and training educators, and by developing an entrepreneurship curriculum for all levels of the educational system. And it will act as a catalyst and keystone in the emergence of an interactive network of groups promoting entrepreneurship across the country. In this way, the Institute will play a vital role in the development of policies to encourage entrepreneurship.

Finally, in order to provide concrete assistance to small businesses across the country, the Canada Opportunities Investment Network (COIN) has been expanded nationally. This is a computerized national investment matchmaking service operated through Chambers of Commerce. Linking investors with entrepreneurs, COIN has already proven successful on a provincial level in Ontario. Nation-wide, it will make it easier for small businesses to find the investors they need to expand and grow.

The National Policy on Entrepreneurship embodies a number of initiatives designed to create an entrepreneurial culture in Canada. In addition, the Policy provides the overall context for the many government services to small business. The next section offers a brief overview of these services.

ENDNOTES

[2] World Economic Forum, *The World Competitiveness Report* (Geneva and Lausanne, Switzerland, 1989).

[3] The Honourable Michael Wilson, *The Budget Speech* (Ottawa: Department of Finance, April 27, 1989), p. 19.

[4] Price Waterhouse, *Tax Reform and Its Impact on Canadian Manufacturing* (Toronto, February 1988).

SECTION 3

GOVERNMENT SERVICES TO SMALL BUSINESS

In addition to pursuing general policy directions favouring entrepreneurship, the federal government provides a host of specific programs designed to help Canada's small businesses. This section provides a brief overview of the kinds of government programs available to help small businesses deal with their most common challenges. Appendix A contains further details about the departments administering key programs and the most important contact points. Appendix B offers a quick overview of initiatives in the areas of information services, technology, paper burden, and exporting.

INFORMATION, ADVICE, AND BUSINESS PLANNING

Most entrepreneurs have a healthy appetite for business information and advice, especially when they are first starting out. This need does not disappear as a small business grows. Indeed, sound business advice and planning often become even more important once a small business has survived its first two or three years and is poised on the threshold of growth.

The major source of information and assistance for companies is the private sector. A wide array of private-sector institutions sell business expertise and information to entrepreneurs. Among them are consulting firms, and professionals in the legal and accounting fields. However, numerous federal government departments and agencies complement the private sector in this area.

The Federal Business Development Bank (FBDB) administers the Counselling Assistance for Small Enterprises program which provides one-on-one counselling by experienced business people to almost 9 000 firms every year. Three quarters of the firms helped have fewer than five employees and more than a third are start-ups.

ACOA offers financial assistance to small firms requiring business counselling. It also sponsors counselling arrangements which put entrepreneurs in touch with business schools. For example, the P.G. Gardiner Institute at

Handling Specialty Mfg. Limited

Dennis Parass, President of Handling Specialty Mfg. Limited of Grimsby, Ontario, says technology provides his company with a competitive edge over larger enterprises. Recent developments, such as computer-aided design, have allowed his lift manufacturing company to go after lucrative customized jobs the costs of which would otherwise have been prohibitive unless mass-produced. Although Handling Specialty has been in business for more than 25 years, the introduction of new technology has meant a doubling of productivity in the past five years. To maintain exports to the United States at a level of 40 percent of sales, Handling Specialty has consistently invested an amount equal to its after-tax profits on R&D. Parass professes a company policy of innovative designs, quality-built products, customer responsiveness, attention to detail, and integrity. He also advocates a committed and innovative relationship with employees.

Memorial University in St. John's, Newfoundland, puts entrepreneurs in touch with business school students who help draw up business plans for start-ups. The program has been very successful and is being expanded to embrace the entire Atlantic region. Business information and advice on a wide range of issues are also provided by ISTC's regional officers, the regional offices of the National Research Council of Canada, and the Patents Office of Consumer and Corporate Affairs.

A new source of business information is the Small Business Data Base, which provides attentive business people with a window on how their competitors or potential competitors are performing. The data base is maintained by Statistics Canada for the federal and provincial governments. For example, Small Business Profiles allows users to compare key operating results by kind and location of business and size of operation. It also lets users know the size of business and industry that tends to prosper in a given location. This information is useful in the preparation of effective business plans and market research. Another report is Sales Per Selling Area of Independent Retailers. It provides retailers with information about characteristics of space utilization in 34 kinds of businesses. Such information is critical to projecting sales, determining staff levels, and planning inventory.

FINDING SOURCES OF FINANCE

Obtaining adequate financing ranks high among the concerns of entrepreneurs. According to a 1986 survey of 1 000 independent small- and medium-sized firms, 27% of business owners reported that financing was a major problem.[5] A number of recent studies and reports confirm this finding. Nonetheless, the rapid rate of business start-ups in Canada in recent years suggests that entrepreneurs are having success in securing capital from private sector sources.

In terms of debt financing, the chartered banks remain the major source of financing for more than 80% of Canada's small firms. The recent trend toward heightened competition in debt markets, evidenced by increased commercial lending by trust companies and by the entry of more foreign banks into the Canadian market, will clearly work to the advantage of small firms.

On the equity side, the growth of Canada's venture capital industry holds out some promise that the small-business sector will become better capitalized. More than $2.5 billion is currently managed by Canadian venture capital firms, an increase of more than 50% over 1986. However, most venture capital funds do not make equity investments of less than $500 000, a threshold that is too high for many small entrepreneurs looking for capital. This finding was noted by a recent task force of the Canadian Chamber of Commerce which suggested that there are gaps in the availability of equity financing for small business in Canada.[6]

The federal government is an important player in facilitating access to capital by small businesses. The two main vehicles through which federal efforts are directed are the Federal Business Development Bank (FBDB) and the Small Businesses Loans Act.

The FBDB is a Crown corporation mandated to promote the establishment and development of business enterprises. The Bank offers a wide range

of financing and management services to small- and medium-sized firms. It provides term loans and equity financing to firms that are unable to secure financing on reasonable terms and conditions from the private sector.

The FBDB plays a particularly important role in providing financing to small firms that lack an established record of earnings. In the year ended March 31, 1989, 48% of the FBDB's loans were to businesses that had been in operation for less than five years. In 1986, the FBDB accounted for 8.1% of all term loans under $1 million and for 6.4% of those under $5 million (see Figure 3.1), though its share of the value of all term loans was a more modest 2.9%. In fiscal year 1989, 55% of loans authorized were for amounts below $100 000, 78% were authorized to businesses with 10 employees or less, and 57% were to businesses located in non-metropolitan areas.

The FBDB has a major role in providing venture capital to small firms. Ranked as one of the top ten venture capital operations in Canada by the Financial Post 500, the FBDB's Venture Capital Division invests equity capital in promising start-ups and fast-growing small firms. Well over half the investments made in 1988-89 were for less than $500 000. The Bank's venture capital role is readily accepted by the private sector. Indeed, a principal objective is to use the FBDB's own investments to leverage equity from private venture capital funds and other investors. The Venture Capital Division has already invested more than $64 million in over 94 businesses, and succeeded in attracting in excess of $220 million in additional equity investments from the private sector.

The federal government also makes a substantial contribution to financing small companies through the Small Businesses Loans Act (SBLA), which encourages the provision of term loan financing to small firms by private sector financial institutions. Under the program, the federal government promises to pay eligible lenders 85% of any loan losses incurred in the event that an eligible borrower fails. The SBLA program guarantee will cover loans of up to $100 000 for the acquisition, installation, improvement and modernization of machinery, equipment, buildings, land or other capital assets. In the fiscal year ended March 31, 1988, there were 18 640 loans for a total $683.7 million made under the SBLA program. See Figure 3.2 for details of how these loans were distributed by region and by industrial sector.

Figure 3.1 Suppliers of Term Loans, 1986 (percentage share of various financial institutions in outstanding non-mortgage term loans)

	Loans Less Than $5 Million	Loans Less Than $1 Million
Schedule A banks	68.1%	62.7%
Schedule B banks	n/a	n/a
Trust companies	1.9%	0.4%
Credit Unions	7.5%	9.6%
Financial corporations	11.2%	14.4%
FBDB	6.4%	8.1%
Other	4.9%	4.8%
Total	100%	100%

* Includes both Schedule A and B banks.
Source: Secor Inc., *The Term Lending Market in Canada*, prepared for the FBDB (March 1987).

IMPROVING THE SKILLS OF EMPLOYEES AND MANAGERS

Entrepreneurs often discover that poorly trained employees and inadequate managerial skills pose an obstacle to growth. With the emergence of an increasingly knowledge-intensive economy, better management and flexible, well-trained employees will become more critical to the success of firms in future years.

The Government attaches a high priority to the development of Canada's human resources. A number of specific government programs are designed to strengthen the skills of workers and those just entering the labour force.

The Canadian Employment and Immigration Commission (CEIC) is the federal department most directly concerned with developing the country's human resources. Through its Canadian Jobs Strategy, CEIC spends

approximately $1.7 billion annually to augment the country's skill base and expand the opportunities available to all groups, including youth, women, natives, visible minorities, and the disabled, to participate in the labour force. Training and work experience are provided to some 400 000 Canadians each year through the various programs grouped under the Canadian Jobs Strategy.

Several programs under this strategy are particularly relevant to the human resource needs of small firms:

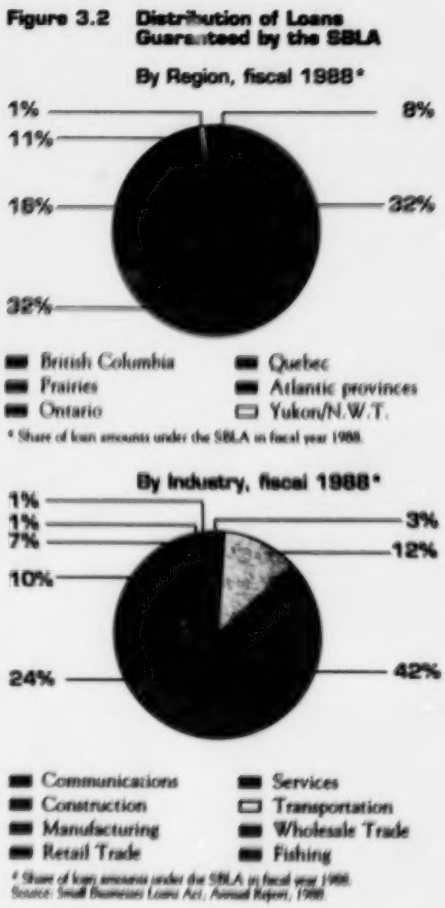
- The Skills Investment Program offers management and entrepreneurial training to individuals whose employment is threatened by changes in technology or markets.
- The Skills Shortages program is geared toward training people in occupations where workers are in short supply.
- The Community Futures program helps finance local committees made up of public and private sector groups that develop ideas for training and employment in regions experiencing economic hardship (for example, one-industry towns faced with a plant shutdown).

Under the auspices of these community-based committees, funds are made available for the following purposes: to encourage unemployed workers and social assistance recipients to become self-employed; to offer advisory services to small firms to create or preserve jobs; and to help fund local projects designed to generate new permanent jobs. CEIC also provides funding for apprenticeship training and for mobility assistance to help workers move from depressed regions to areas where employment opportunities are greater.

The FBDB, through its Management Services Division, is the federal agency primarily charged with providing entrepreneurs with business advice and improving their management skills. Over the years it has established an impressive range of management-education services. In a typical year, the FBDB presents up to 1 700 business management seminars for more than 30 000 participants. The topics include general management, marketing, finance and personnel. The Bank also has a separate and more in-depth financial planning program which includes strategic planning and financial packaging assistance. In addition, some 36 000 people attended 30-hour business management courses developed and offered by the Bank through community colleges and CEGEPs in 1988-89. Individualized counselling and advice is also offered to business owners whose firms have fewer than 75 employees through the FBDB's Counselling Assistance to Small Enterprises program.

The FBDB's newest service to small business is the Community Business Initiative. It consists of 40 hours of group training matched with 40 hours of individualized counselling at each participant's place of business. This service is offered in smaller communities and normally involves approximately 30 local, non-competing business owners who choose their own training topics.

Figure 3.2 Distribution of Loans Guaranteed by the SBLA



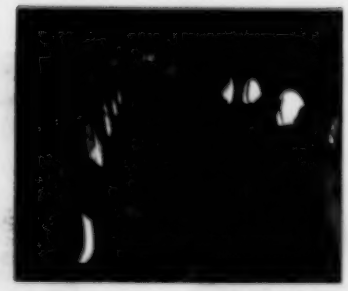
PROMOTING TECHNOLOGICAL INNOVATION

Many business people recognize that technology has become a powerful weapon in the quest for improved competitiveness and commercial success. Unfortunately, Canadian business, especially small- and medium-sized business, has been slow to make use of technology.[7] A fundamental technology challenge facing Canada's small business sector is to apply the latest technologies to every area of business operations from product development, to marketing, to office communications. To succeed in this, small firms must become more aware of technology and take the steps necessary to acquire and use it. Making optimal use of existing technologies is where competitors such as the Japanese excel. It is an area where there is scope for our own companies to improve their performance.[8]

The Government recognizes that small businesses can benefit from assistance in several areas related to technological innovation. Commercialization of technology involved in innovation is one example. Improving their capacity to absorb technology is a second. And increasing their knowledge of how the key generic technologies can strengthen their operations is a third.

The key source of federal technological help for small business is the National Research Council of Canada. As the government's largest scientific and technical research organization, the council supervises the Industrial Research Assistance Program (IRAP). Designed to help small- and medium-sized firms access technology, IRAP takes advantage of an extensive network that includes more than 200 regional and local officers, 60 provincial technology centres, the council's own laboratories and research institutes, federal government departments, technology transfer officers in Canadian universities, as well as technology counsellors attached to Canadian posts in some 14 foreign countries.

The IRAP network provides firms with efficient and affordable access to needed technical know-how from any appropriate national or international

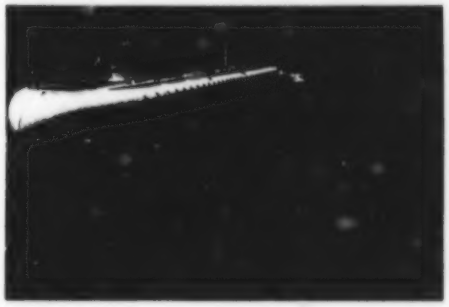


Sub Aquatics Development Corp.

Dennis Hurd and his key people each had 10 to 14 years of experience designing or operating the submarines that service the offshore oil industry. But they wanted to create a new technology and a whole new market. Their goal was to develop and operate passenger submarines for underwater tours at tropical resorts. Founded in 1983, Sub Aquatics Development Corp. of Vancouver, B.C., grew from 2 employees to more than 200. With annual sales estimated at $14 million in 1989 and 6 operating sites around the world, Sub Aquatics is now Canada's largest underwater engineering company and a world leader in its field. Its "Atlantis" submarines cost an average of $3 125 000 to build and are estimated to be two to three years ahead of the competition. Not content to rest on its laurels, the company is opening a new operation in Honolulu later in 1989 and has its sights set on the huge tourist markets of the Mediterranean.

source of technology. It helps small- and medium-sized enterprises develop, acquire, and adapt appropriate technologies to improve their technical know-how, productivity and therefore competitiveness. For more details about IRAP, see Appendix B.

The technological development of small- and medium-sized enterprises is also central to the mandate of ISTC. For example, the department is supporting the development of strategic technologies essential to future prosperity and competitiveness. Information technology, biotechnology, and advanced industrial materials have been identified as having a strategic significance that goes beyond any one sector or industry. ISTC is encouraging firms to make alliances and create networks to share the costs and risks of accelerating the development and application of these technologies. In addition, several other programs have been initiated by ISTC and other federal agencies to help businesses acquire, absorb and use advanced technologies. For details, see Appendix B.



SELLING TO THE FEDERAL GOVERNMENT

The federal government is the single largest purchaser of goods and services in Canada. Through its purchasing policies, it has an important impact on the small business sector.

Supply and Services Canada (SSC) is responsible for approximately half of all federal government purchases. Up to 70% of its purchases involve high technology products. Public Works Canada is the contracting authority for the majority of construction contracts relating to federal public works and installations. Responsibility for the remainder of government purchases, many of which consist of services, is delegated by the Treasury Board of Canada to individual departments.

The annual value of SSC contracts awarded to small firms rose from $780 million to $1.85 billion between 1980-81 and 1986-87.[9] In the latter year, some 32 000 small companies sold goods and services to SSC. These firms accounted for one third of the value of all SSC contracts, although this understates their true role since many small firms are also suppliers to larger companies that win federal contracts.

In 1986, SSC unveiled a Small Business Action Plan in order to improve small business access to government contracting. This included a one-stop sourcing registration system and adoption of a short-form contract for purchases below $25 000. These were adopted to make it easier for small firms to bid for and win federal business.

In 1988, SSC and ISTC announced the Access Small Business Program. This program includes a number of initiatives aimed at helping small businesses gain improved access to government contracts. As part of this initiative, SSC and ISTC are working closely with the Atlantic Canada Opportunities Agency and Western Economic Diversification Canada to include regional small businesses in government purchasing activity.

Doing business with SSC is different from dealing with a private company. In the majority of cases, SSC solicits bids from source lists of companies or individuals who have registered as potential suppliers.

However, for requirements falling under GATT or the Canada-U.S. free trade agreement, opportunities to bid are posted in a new weekly publication called Government Business Opportunities. Small firms wishing to sell to federal departments and agencies should begin by registering with their regional SSC office. These offices will make information available on what the government is buying in their region. SSC reflects regional development considerations in its procurement policies and processes. For example, the Area Buy Policy requires that SSC's regional offices solicit bids within their area to ensure adequate competition, the required level of service to customers and fair value for the taxpayer's dollar. Small businesses are major beneficiaries under the Area Buy Policy.

Publications and educational seminars that provide suppliers with both general and specific information on accessing government markets are available from SSC. Information on procedures and on the commodities being purchased can be obtained by calling or visiting the nearest SSC regional office.

SELLING TO FOREIGN MARKETS

Most aggressive entrepreneurs are drawn to the prospect of exporting. Traditionally, however, the small-business sector has not been a major source of Canada's exports. With the implementation of the Canada-U.S. free trade agreement and other moves to liberalize the international trading environment, Canada's small firms have greater opportunities to export. At the same time, however, they face more intense competitive pressure from abroad in the domestic markets that they used to think of as exclusively their own.

The federal government has made a commitment to enhance the export capabilities of small- and medium-sized Canadian firms. A host of programs now exist to accomplish this goal.

International Trade Centres have been established across Canada as the first point of contact for companies interested in exporting. Located within the regional offices of ISTC, the centres operate under the guidance of External Affairs and International Trade Canada (EAITC). The Centres offer a full range of trade services. They will help companies determine whether or not they are ready to export and will assist firms with their marketing research. They support export awareness initiatives such as conferences and workshops. And they provide access to a series of government programs designed to promote exports. The centres are part of an extended network of trade commissioners across Canada, at geographic and sectoral trade divisions in Ottawa, and at more than 110 offices abroad.

Among the most important of these programs is the Program for Export Market Development (PEMD), which shares the cost of industry-initiated activities aimed at developing export markets (see Figure 3.3). EAITC also sponsors several programs that familiarize Canadian companies with the process of exporting to various markets in the United States and overseas. For further details, see Appendix B.

Financing Exports: There are numerous ways in which the federal government helps exporters finance their activities. The Export Development Corporation (EDC) is a federal Crown corporation that provides a wide range of insurance guarantees and financing services to

Canadian exporters and foreign buyers in order to facilitate Canada's export trade, including the following:

- insurance against non-payment by foreign buyers;
- guarantees to banks or other financial institutions offering financing to support Canadian exports; and
- eight types of export financing at both fixed and floating rates of interest to foreign buyers of Canadian goods and services.

In 1988, the EDC financed 1 922 transactions worth $5.5 billion. Over 80% of its clients are small- or medium-sized businesses.

The Federal Business Development Bank offers an Export Receivables Financing Program that provides small- and medium-sized businesses with financing for their foreign-based receivables. Through this program, the FBDB provides a full guarantee to financial institutions that extend lines of credit to businesses approved under the program. This guaranteed line of credit can cover from 60% to 90% of the value of the export receivables used as security. The guarantee normally lasts one year and is renewable.

Government Export Contracts: Several federal government agencies contract for exports from Canadian firms. The Canadian Commercial Corporation (CCC) was established to act as the contracting agency when foreign governments and international agencies wish to purchase goods or services from Canada on a government-to-government basis. It ensures that the Canadian supplier is financially and technically capable of conforming with bid specifications, contract terms, and supplier warranties.

In the past, the CCC's sales have covered a wide range of Canadian exports, from individual commercial and defence-related items valued at a few thousand dollars, to high-technology equipment and systems worth more than $50 million. To date, the CCC has contracted for the export of over $15 billion in goods and services on behalf of thousands of Canadian firms.

Figure 3.3 PEMD Industry-Initiated Activities, 1988-89

Province	Small Firms*	Large Firms	Total
Nfld.	29	9	38
N.S.	73	12	85
P.E.I.	23	2	25
N.B.	42	13	55
Quebec	322	164	486
Ontario	555	210	765
Manitoba	60	17	77
Sask.	84	10	94
Alberta	254	65	319
B.C.	303	40	343
Total	1745	542	2287

* Small firms are defined as those with less than $5 million in annual sales.
Source: External Affairs and International Trade Canada

International Road Dynamics Inc.

International Road Dynamics of Saskatoon has created a system to weigh vehicles while they are travelling at normal highway speeds. As a result, trucks need not waste time stopping at roadside weighing stations and governments save on the costs of monitoring traffic weights along their roads. The system can also pre-sort overweight trucks before they report to a weighing station and accessories include traffic control systems, automated vehicle identification, and detectors for excessive height or wrong lanes. Developed in Canada, the scales perform well under all weather conditions. A dedicated staff of engineers has used its R&D efforts to lead the company to new products, new technologies, and markets. Clients include both goverments and private companies and the company's systems have been installed in Canada, the United States, China, and Egypt. As a successful international competitor the company holds 100% of the Canadian market for this type of system and about 45% of the export market. It employs 30 people and its annual revenues are approaching $2 million.

The Canadian International Development Agency (CIDA) is responsible for administering about 75% of Canada's official development assistance. At least 50% of CIDA's bilateral aid is tied to the procurement of competitively priced goods and services from Canada, many of them provided by small firms. These may be purchased by CIDA for particular projects or be supplied under general or sectoral lines of credit provided to recipient countries. CIDA's Industrial Cooperation Program aims to stimulate Canadian private-sector involvement in developing countries by supporting long-term business relationships such as joint ventures and licensing arrangements. It also provides support to Canadian companies wishing to undertake project definition studies.

Finally, the World Information Network for Exports (WIN Exports) is a computer-based information system designed to help Canada's trade development officers abroad match foreign needs to Canadian capabilities. As a sourcing system, WIN Exports provides its users with up-to-date and accurate information on the capabilities, experience, and interests of more than 22 000 Canadian exporters. Small businesses interested in exporting should inquire at their nearest International Trade Centre for details on how to list their offerings on the system.

SUMMARY

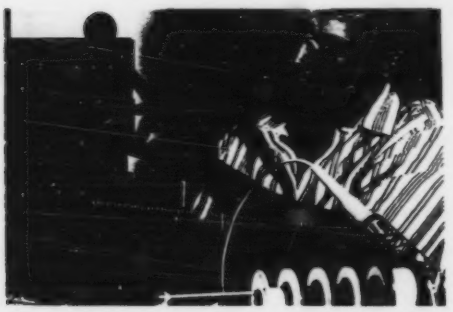
The federal government has adopted a comprehensive approach to the needs of small business. By coordinating the activities of various departments and delivering programs and services through ISTC's regional offices, the federal government has ensured that Canada's entrepreneurs will receive swift and appropriate assistance. In this way, businesses can take full advantage of a wide range of assistance at any point in their evolution from start-up to mature company.

ENDNOTES

[5] Survey of 1,000 small firms conducted by Decima Research for the Federal Business Development Bank, 1986.
[6] The Canadian Chamber of Commerce, *FOCUS 2000: Report of the Task Force on Making Investment Capital Available* (Ottawa, August 1988).
[7] The Canadian Chamber of Commerce, *FOCUS 2000: Report of the Task Force on Technology and Canadian Business* (Ottawa, August 1988), p.vii.
[8] Albert Link and Gregory Tassey, *Strategies for Technology-Based Competition* (Lexington, Mass.: D.C. Heath, 1987).
[9] SSC statistics are based on the ISTC definition of small businesses as those with fewer than 100 employees in manufacturing and fewer than 50 in other sectors.

SECTION 4

CURRENT ISSUES AND FUTURE CHALLENGES



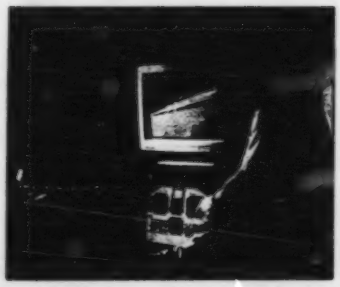
A CHANGING ENVIRONMENT

Small business today faces both unprecedented challenges and countless opportunities. To overcome the challenges and take advantage of the opportunities, however, Canada's entrepreneurs will need to think and act in new ways and to take advantage of the forces driving economic change.

SOME CURRENT TRENDS

Canada's economy has been substantially transformed over the last two decades. The following changes have an especially important impact on small business:

- Women have entered the paid work force in unprecedented numbers. They have brought new skills, fresh perspectives, and specific needs into the workplace. As women increasingly establish their own businesses, they are challenging traditional assumptions while at the same time invigorating the economic life of the country.
- A baby boom in the 1950s was followed by declining birth rates in the 1970s. This has affected the size of Canada's current and projected labour market, unemployment levels, and the availability of skilled workers.
- The service sector in Canada's economy continues to grow in importance. More than two thirds of the country's economic activity now consists of services, though half of these are production-related.
- An information economy has emerged in which the ability to accumulate, transform, and apply knowledge has become a key factor in business success. Knowledge is more than just power: it is now the foundation of all economic activity.



Virtual Prototypes Inc.

Virtual Prototypes Inc. of Montreal was a one-man company when Eugene Joseph invented a new technology to take advantage of a market opportunity, but Joseph attributes his company's success to the hiring of exceptional people and to helping them work as a team. The Virtual Prototyping System (VAPS) is used to design software for complex control and display systems used in aircraft cockpits, car dashboards, and monitoring work stations. Instead of spending hours programming a function, the user can simply choose a function by drawing a picture or selecting from a menu. VAPS has no competitor. Development was completed in 1987. Sales for that year were nearly $1.5 million and by July of 1988 had reached $3 million, 90% of which came from exports. Development was made possible through early contracts from the Department of National Defence and Transport Canada, and through funding from a Quebec government venture capital corporation, AQVIR.

- As a corollary to the emergence of the information economy, dramatic developments in computer and telecommunications technologies have improved office efficiency and increased business capability. As a result, economies of scale are no longer a decisive advantage, and even the smallest company can be competitive.

Changes such as these have stimulated entrepreneurship in Canada. New companies are being created at an unprecedented rate and more of those companies are surviving those critical first years to develop into established and viable concerns. Small businesses are now a dynamic force in virtually every part of the Canadian economy. They are contributing to innovation, they are creating jobs, and they are enhancing Canada's overall competitiveness.

THREE CHALLENGES

If small business is to continue to grow and prosper in today's rapidly changing environment, Canada's entrepreneurs will have to address some major challenges. Three in particular deserve careful attention: globalization, technology, and human resources. This section will discuss all three and offer some ideas about how small businesses can respond.

INTERNATIONAL TRADE

Small business today exists within a global economy. Technology has overcome distance and barriers to commerce are coming down. Since the Second World War, the members of GATT have worked through successive rounds of negotiations to create an increasingly open international trading system. These efforts have been supplemented by bilateral trading arrangements such as the Canada-U.S. free trade agreement, and the emergence of huge new trading blocs such as the European Community.

As a result, multinational firms have emerged to pursue a global trading orientation and world trade has expanded rapidly, reaching approximately $3 trillion in 1988. In fact, since the 1960s, merchandise trade has consistently expanded more quickly than global production. In the period 1980 to 1988, merchandise exports increased by 3.5% annually (4.5% for manufactured products), compared to an average rise of 2.5% in global output.

In the past 15 years, there has also been a dramatic increase in global trade in services. It has been particularly striking in the case of travel, transportation, financial services, and other business services. Services now account for almost 30% of total world trade, up from 23.7% in 1976. In 1988, the value of world services trade surpassed $1 trillion.

Accelerating growth in international capital flows is still another sign of increasing globalization. The value of global financial flows now exceeds that of world trade by more than twenty times.

THE CHANGING ROLE OF INVESTMENT

The role investment plays in the international economy has changed. In the 1960s and 1970s, investment was considered to be a substitute for trade. Companies excluded from a desirable market by protectionism would invest there as a means of market access. By the 1980s, however, international investment had become a stimulus to international trade. The pressures of global competition are leading companies to consider how they can gain an advantage from their location to enhance their international operations.

In this new global economy, investment is no longer exclusively concerned with traditional qualifiers such as capital, plant, and equipment. It now includes an intricate mix of aggressive R&D skills, innovative technology, technical know-how, advanced production processes, and managerial expertise.

Companies both large and small are using investment to broaden their technological capabilities, improve market access, control the costs of advanced R&D, and reduce overall risk. They are investing by entering into various forms of international industrial cooperation involving inter-firm partnering for joint ventures, co-production, co-marketing, R&D consortia, strategic alliances, and licensing.

NEW BUSINESS STRATEGIES

Globalization means that companies will need to start thinking in terms of international markets and competitors at an earlier stage in the product and business development process. Traditionally, small companies secured a strong position in a local market before venturing beyond it. This meant that they could develop a certain size and experience before attempting to compete against larger firms in a larger market.

This strategy may no longer be viable. The luxury of concentrating on the domestic market to build a foundation for long-term growth is disappearing. Domestic markets no longer provide the safety of isolation: the global marketplace is as close as the corner store. As a result, from the moment they are formed, small companies may find themselves competing against large, internationally active corporations.

A purely defensive strategy may not be enough to ensure survival. Many companies are finding that the only way to protect a domestic market is to attack foreign competitors on their own ground. For an increasing number of Canada's small businesses the issue is no longer whether or not to export, but rather, how quickly to gear up in order to make exporting a success.

THE CHALLENGE OF EXPORTING

For small business, exporting is a challenge in today's highly competitive international economy. There are opportunities, but there are also problems and risks involved:

- Many small companies do not have the time or resources to research foreign markets, they do not always understand which markets are best for their products, or they do not know how to position their products in those markets.
- Small companies may find it difficult to develop or acquire international management and marketing expertise.
- Even if a company has both a product and a willing buyer, it may still fail if it cannot ship the product. That involves dealing with customs and shipping procedures, possibly distribution channels, certainly collecting payment. In some cases, payment may be in kind (counter trade), adding another level of complexity to the challenge.
- Language may prove to be a barrier even if markets are available. Not knowing a local language makes it difficult to negotiate, to close a deal, or to do business regularly. A knowledge of foreign business cultures and practices is also important in making a favourable impression on clients.

Many of these challenges also affect larger companies but they may appear especially daunting to smaller companies with limited resources and information. Yet in today's global economy entrepreneurs cannot afford to ignore the challenge of exporting. Many of Canada's small businesses already export and help is available to encourage others to follow their lead.

As described in the previous section, External Affairs and International Trade Canada has put in place a comprehensive array of services and programs designed to help small businesses export. Further details of these programs are summarized in the Appendices.

TRADING HOUSES

Canada also enjoys a national network of trading houses, which can help find foreign clients for Canadian goods and services. Linked by the Canadian Council of Trading Houses, some three hundred firms actively assist Canadian companies with marketing and expediting exports. These organizations can be especially helpful to small businesses seeking assistance with their exporting activities.

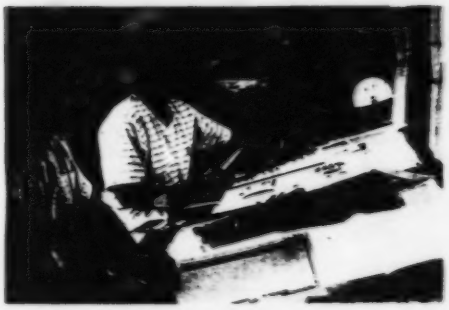
MULTICULTURALISM

Canada is a multicultural society in which it is possible to find people who speak virtually any language in the world. Similarly, there are many Canadians who are familiar with the cultural assumptions and practices of foreign countries. Small companies looking for specific linguistic or cultural expertise should refer to the *Directory of Canadian Ethnocultural and Bilateral Business Organizations* published recently by the Multiculturalism Secretariat of the Secretary of State.

Pelorus Navigation Systems Inc.

Ed Fitzhenry is committed to creating and exploiting opportunities for the design, manufacture, and installation of innovative navigation and meteorological systems. In 1982, he left a successful career in the energy industry and mortgaged his personal assets to found Pelorus, initially as a distributor for a single aircraft navigation system. Since then, Calgary-based Pelorus has evolved into a designer and manufacturer of a wide range of technologically sophisticated aviation systems. Since innovation is risky, the company always keeps its new project hopper full, focusing on specific markets with high growth potential. For instance, most of the 14 000 regional airports in the world lack adequate navigation equipment, yet there is a growing recognition that airports are increasingly important to community development. Pelorus is the only company in Canada, and one of the few in the world, to respond to this market. As a result, it has reached annual sales of $3 million and employs 28. With offices in Calgary, Toronto, Halifax, Tucson, and Dublin, it is conducting a vigorous international marketing program in China, the Pacific Rim, Europe, and the United States. With a joint venture in the U.S. and important new contracts in Europe and Southeast Asia, 1989 is shaping up as a breakthrough year for Pelorus.

PARTNERSHIPS



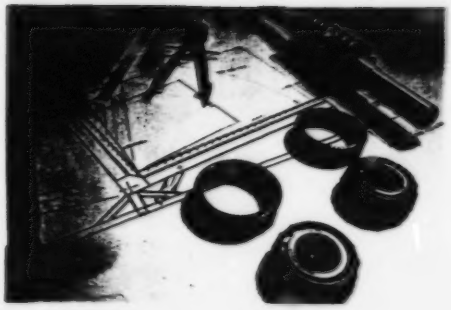
Joint ventures, strategic alliances, or consortial arrangements are effective ways of accessing technology, opening a window onto R&D activities, securing financial backing, acquiring marketing expertise, or gaining quick entry into new markets. Such partnering is not restricted to larger companies. An increasing number of smaller Canadian firms are using it to enhance their competitiveness.

While international partnering arrangements may involve risks, they can also yield significant benefits. They allow a small Canadian company to compare what it is doing with the strategies of others who are active internationally. They plug the Canadian company into an international network. And they can help the company acquire information, keep tabs on technological developments, and participate in emerging opportunities.

Global competition will only increase in the future. The current Uruguay round of negotiations under GATT will achieve further reductions in tariffs and other forms of protection by 1991. A huge single European market will come into existence in 1992. Dramatic changes in the Soviet bloc will alter its relationship to the world economy. And the countries of the Pacific Rim already constitute one of the most dynamic markets of the world.

In response, EAITC has developed a "Going Global" strategy designed to help Canadian businesses penetrate markets abroad. EAITC offers programs to help Canadian business take advantage of the free trade agreement with the United States. And initiatives such as Europe 1992, and Pacific Rim 2000 are helping Canadian business pursue emerging opportunities in those markets.

These developments present exciting opportunities for growth and profit for Canada's small businesses. These firms need no longer be bound by a relatively small domestic market. By making exporting a priority, the small business sector can reap a rich reward in the vast markets of the entire world.



Successful exporting, however, demands international competitiveness. In today's economy, an important determinant of competitiveness is technology. Yet technological complexity confronts small business with its own particular challenges.

Technology enables companies to compete on an entirely new playing field — that of superior quality, functional design, and timeliness. It is not confined to advanced laboratories or to high-tech industries. It is equally vital to mature and resource-based industries. More than ever before, industries of the future will have to exploit technology to remain competitive.

Technology can be used to extend corporate supply networks. It can make it feasible to use new techniques such as just-in-time delivery systems. It can provide companies with powerful sources of information about their markets and their competitors. It can be harnessed to promote and sell products with unprecedented effectiveness. In fact, every aspect of business today is being enhanced through new technologies.

As technological change accelerates, all companies must accommodate innovation or risk being overtaken by competitors who do it first. Yet, technology today knows no borders. Discoveries in one part of the world are quickly turned into products in another. As soon as they are announced, innovative technical solutions attract international attention.

CURRENT TRENDS IN TECHNOLOGY

The lightning pace of technological change confronts Canadian small businesses with significant challenges.

- As technology becomes more sophisticated, R&D becomes more costly. At the same time, the penetration of large global markets also demands considerable up-front outlays of capital. And in a highly volatile and competitive environment, there is increased risk of a company's products being overtaken by those of competitors. Small companies may not have the resources to play effectively in this arena, or even if they do, they may only be able to develop one product line, thus betting the company on the success of a single idea.
- It used to be possible to keep an eye on competitors in Canada and largely ignore the rest of the world. Events moved so slowly, there was always time to adjust. Today, even smaller companies must keep up with innovation on a global scale. Yet a small company may not have the time or the resources to scan all relevant literature, go to all trade shows, and tap into all databases.
- Companies in technology-intensive industries stay close to their customers in order to know what they want and expect in an environment of rapid change. This is all the more difficult in a global economy in which the client may be thousands of miles away.

- The quickening pace of technological change has resulted in the shortening of product life cycles. Rapid technological change and intense world-wide competition ensure that products dominate the market unchallenged for ever shorter periods of time. New and improved or cheaper versions of the product may quickly render the original obsolete. This means that there is an ever-shrinking period of time during which companies can recoup their original investment in a technology.
- Large organizations may have the resources to finance the acquisition and introduction of new technologies, even if they do not develop them themselves. For smaller companies, this is is rarely the case.

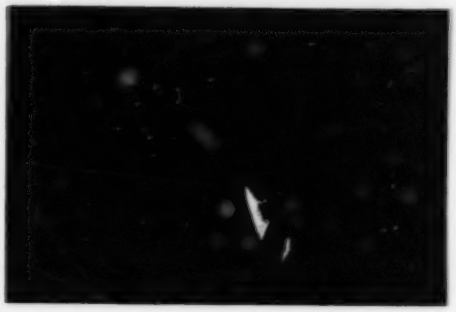
BUSINESS-UNIVERSITY COLLABORATION

The challenges are imposing but there are many sources of assistance available to Canada's small businesses. One important resource is our academic community. There are numerous Canadian examples of business-university collaboration. Paprican, which brings together pulp and paper companies, and McGill University is one of the oldest, having been in existence since the 1920s. One of the newest is Precarn which includes more than 20 companies and universities interested in artificial intelligence and robotics.

The University of Calgary is operating a technology-based small business incubator, McGill University has created a centre for entrepreneurship, and McMaster University has been instrumental in creating the Management of Technology Institute.

Kadem Technology Inc.

Glenn Dennis of Windsor, Ontario, recognized that computer-aided design and manufacture (CAD and CAM) was going to revolutionize the product design and development industry well before his competitors did. After careful planning, he established Kadem Technology Inc. to take advantage of these new technologies. This involved a comprehensive marketing plan which included setting up a U.S. sales company, building a new plant in Windsor, and ongoing training of CAM/CAD personnel. He financed it with his own money, supplementing it with funds from company resources, family and friends. Kadem has now expanded from product design to mold-making and manufacturing and from 6 employees in 1983 to 56 in 1989. Annual sales have now reached over $4 million. The Kadem president also worked to develop a committed management team by bringing in key employees as shareholders and by delegating departmental responsibility. Today, Kadem is one of Canada's leading suppliers of plastic product design services.



THE NATIONAL RESEARCH COUNCIL

There are other sources of technological expertise and assistance. For example, the National Research Council of Canada (NRC) operates the highly successful IRAP initiative. Through it, companies can get assistance with salaries for R&D projects, and receive help in finding and accessing the technology they need. The Council also operates the Canada Institute for Scientific and Technical Information (CISTI). This library of scientific and technological publications is one of the largest such databases in North America.

STRATEGIC TECHNOLOGIES PROGRAM

ISTC's Strategic Technologies Program is designed to strengthen the ability of industry to develop and apply technologies important for competitiveness in three vital fields: biotechnology, advanced industrial materials, and information technology. Of particular interest to small- and medium-sized companies is the program's support for alliances involving several companies, universities, or foreign partners to carry out pre-competitive R&D on leading-edge technological applications.

ADVANCED MANUFACTURING TECHNOLOGY APPLICATION PROGRAM

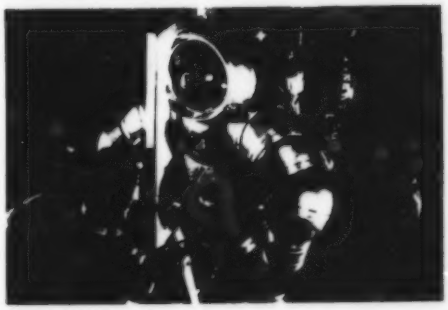
The Advanced Manufacturing Technology Application Program (AMTAP) is designed to enhance the international competitiveness of Canadian industry by stimulating the more effective use of advanced manufacturing technology. Delivered through ISTC's regional offices, the program provides contributions to help companies assess the feasibility of upgrading their manufacturing processes. For details of this and other technology-oriented programs, see Appendix B.

In addition, there has been a proliferation of domestic and international databases dealing with technology, venture capital, and economic information. The relentless advance of telecommunications technology means that such information can be offered at a reasonable cost and s now literally a phone call away.

PARTNERING AS A SOURCE CF TECHNOLOGY

Another source of technology for small companies is partnering between large established companies and start-ups, or between small Canadian companies and international ones. Large companies can serve as sources of capital, expertise, and technology. They can also give smaller companies a buyer for their products and services. This kind of a relationship may help the smaller company to cope with the pressures of shorterproduct cycles by getting off the ground faster while at the same time retaining their flexibility and independence.

ADAPTING TO CHANGE



Short product life-cycles and the speed with which international exporters can enter a market continuously change the product mix consumers are offered. Consumers are increasingly demanding semi-customized products rather than standardized commodities. Companies have to be able to respond quickly to consumer demands by becoming more specialized in particular niches. For smaller companies, success may come from doing one particular thing very well instead of addressing very broad markets.

The same technology that seems such a challenge can also be the lever that allows small firms to compete with larger companies. Their smaller size provides greater flexibility, while automation reduces the advantage of large companies in exploiting economies of scale, and technology can open up product niches in areas not served by larger firms.

FINDING A NICHE

Success today comes from finding a niche. There are numerous examples of Canadian companies that have succeeded because they have defined a niche and occupied it. Exploiting a niche often requires exporting in order to profit fully from a highly specialized product line. Small Canadian companies can and must take on global markets. To do so will require a high degree of motivation and superior products in areas overlooked or impractical for large companies.

HUMAN RESOURCES

Entrepreneurs produce ideas and recognize opportunities. Then they need people to help them achieve their vision. In today's knowledge-based economy, skilled people are the most precious of resources, and many companies falter because they cannot find the right people to do what needs doing. In fact, serious skill shortages already affect certain sectors of the economy. If Canadian companies cannot recruit the skilled workers they need, they will be unable to enter new markets or even preserve existing ones.

DEMOGRAPHIC TRENDS

Current projections suggest that Canadian companies will have to pay closer attention to human resources in the future.

- Relatively fewer young people are entering the work force, while the proportion of older workers is rising.
- Because of increased international competition for skilled tradespeople, fewer of them will immigrate to Canada.
- As the relative importance of the service sector continues to grow, demand for the managerial and professional skills will increase and these too could be in short supply by the end of the century.

Seagull Pewterers & Silversmiths Limited

At Seagull, employees are a vital part of the business. Principal owners John Caraberis and Bonnie Bond strive to manage by consensus and they take care to invest in staff training as well as product development and market research. As a result of its training efforts, the company has achieved productivity improvements of more than 35%. Much of the company's success is directly attributable to the employees' commitment and pride in the quality of the work they do. When they formed their partnership in 1979, John Caraberis' expertise was in marketing and Bonnie Bond's in her ability to develop artistic designs that anticipate consumer trends. Seagull Pewterers and Silversmiths was founded in their home town of Pugwash, Nova Scotia, with used equipment, a staff of three, and about a hundred traditional designs. Seagull developed original design works and introduced contemporary pewter giftware pieces such as picture frames. Sales grew as did their product line which now includes nearly 2 000 unique pieces. Seagull has also committed itself to opening new markets. After their initial venture into the U.S. in 1982, they have sought markets in Japan, West Germany, Australia, and England. In 1987, a team was formed to develop a lucrative corporate giftware line. At present, 70% of the company's revenues come from exports with the major market being the United States.

- As business becomes more complex, entrepreneurs, owners, and managers will need a wider array of skills just to keep effective control over their businesses. It is not enough to have a good idea. An entrepreneur today must know something about business planning, accounting, taxation, office automation, and personnel management, in addition to developing specific expertise in the company's products.

These trends suggest that certain skills may soon be in short supply. For example, it is estimated that half of the jobs created between now and the end of the century will require 17 or more years of schooling. In 1986, less than a quarter of Canada's jobs required this amount of education.

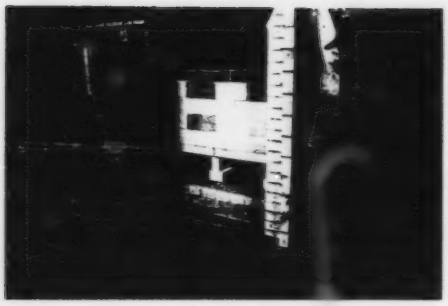
THE TRAINING IMPERATIVE

To satisfy the new skill demands of the workplace, workers will need better educational preparation before entering the work force, and they will need training in new skills on an ongoing basis. However, Canadian industry provides little formal labour force training. Statistics Canada has estimated that on a per capita basis, firms in Canada provide less than half the amount of training offered by firms in the United States.

Skill training programs can result in important productivity benefits for business. Training improves employees' morale and self-esteem. It also improves the flexibility of workers, offers them more choice, and allows them to realize their full potential to the advantage of overall productivity. As a result, major industrialized countries are focusing on improving training efforts as a means of raising productivity and staying competitive. Employment and Immigration Canada through its Canadian Jobs Strategy, provides skill shortages training, skill development training, and entrepreneurship support under a variety of programs. In addition, the Minister of Employment and Immigration has announced a new Labour Force Development Strategy that will increase the emphasis on preparing Canada's work force to meet the challenge of the next decade.

LABOUR FORCE DEVELOPMENT STRATEGY

The purpose of the Labour Force Development Strategy is to encourage the private sector to increase its role in training workers and to ensure that training programs are more responsive to current labour market needs. The primary responsibility for employee training rests with employers and workers. The Government aims to stimulate employers' commitment to skills excellence through programs that promote and reinforce private sector training and thereby strengthen the competitiveness of Canadian business.



Canada also needs to make human resource planning a common feature of the employment culture in all sectors. To this end, Employment and Immigration Canada will make more funds and technical expertise available for:

- building networks of organizations (industry associations, unions, and/or training institutes) that share human resource concerns;
- providing financial and technical assistance in the analysis of human resource issues facing sectors, industries, and firms, particularly small firms;
- helping with the development and implementation of employment equity plans as required under the Federal Contractors Program and the Employment Equity Act; and
- providing seed funding for select initiatives resulting from these plans.

SOME RECENT INITIATIVES

There are Canadian companies that are already working closely with community colleges, universities, and even high schools both to influence the educational curriculum and to create new training programs. Representatives from business are advising educational authorities on future labour needs to ensure a supply of appropriately-trained people. Educational institutions are increasingly reaching out to the business community for ways of enhancing the experience of students through on-the-job training, apprenticeships, and university-industry co-op programs.

In addition, many large established firms have created highly developed in-house training programs. Their size gives them the resources to do this. For the vast majority of small firms and start-ups, however, providing in-house training and ongoing skills upgrading for their workers remains a significant problem. Yet smaller companies also need to keep their employees' skills current if they want to exploit new technologies. In today's competitive environment, there is no alternative to continuous development of human resources, regardless of company size.

In fact, human resources can turn out to be a source of competitive advantage for very small companies that cannot compete in other ways. For example, a small company may not have the laboratories and the R&D history of larger competitors, but it may be able to compete because of the excellence of its service or its ability to respond flexibly to the customer.

The ability of small business to compete in a knowledge-based, technology-driven world is increasingly dependent on its capacity to educate, train, and retrain workers effectively. Today's companies demand an unprecedented array of highly specific skills and extreme flexibility from their employees. Yet if they secure and develop appropriate human resources, even small companies can use them to create and retain a competitive advantage in world markets.

SUMMARY

The federal government is aware of the major challenges facing the small business sector. It is providing concrete and comprehensive assistance in every field.

Canada's export assistance programs cover every aspect of selling abroad from market research through export financing. Our trade commissioner service is second to none, and the recently established network of International Trade Centres, located in each ISTC regional office, will ensure that business people in every part of Canada will have direct and immediate access to the kind of help they need to meet the challenge of globalization.

The government provides expert and personal assistance with technical acquisition and implementation. Whether the technology is generated in Canada or imported from abroad, the small business owner can obtain assistance in finding and accessing state-of-the-art technology that enhances competitiveness. Here too, the Canada-wide network of local ISTC and NRC offices will ensure that every Canadian business benefits from the latest in technical information.

Finally, in view of mounting evidence that a well-trained, adaptable work force will be essential to Canada's future competitiveness, the government has announced a substantial increase in the levels of funding available for training. Under the new Labour Force Development Strategy, almost $800 million in additional funds will be directed into labour market training programs each year.[10] Increased resources will be allocated to support new entry training programs in fast-growth service occupations, human resource planning initiatives at the firm and industry level, and new training programs for unemployment insurance beneficiaries. It is expected that this government initiative will lever a comparable contribution from the private sector thus bringing the total dollars spent on training and developing the work force on a per capita basis up to the level of the United States and other industrialized countries.

In all of its programs and initiatives, the federal government is pursuing a new, locally-based service orientation. With ISTC's regional offices and the new regional development organizations serving as primary points of contact for service and program delivery, the government is making all of its programs readily accessible to every small business in Canada.

The government is focusing on services and assistance that address the real needs of small business. It has simplified and rationalized its programs. It has strengthened the local network of officials charged with delivering them. Through its understanding of the challenges faced by small business, its concrete program initiatives, and its new service-oriented approach, the federal government is ready and able to help small business remain one of the most dynamic and resilient elements in the Canadian economy.

ENDNOTES

[10] Employment and Immigration Canada, *Success in the Works: A Policy Paper* (Ottawa, April 1989).

APPENDIX A

GOVERNMENT DEPARTMENTS AND AGENCIES WITH A DIRECT RESPONSIBILITY FOR SMALL BUSINESS

INDUSTRY, SCIENCE AND TECHNOLOGY CANADA

Head Office

235 Queen Street
Ottawa, Ontario
K1A 0H5
tel. (613) 995-5771
fax (613) 954-1894

Industry, Science and Technology Canada (ISTC) has been created with a broad mandate to improve the competitiveness of Canadian industry. In the area of small business, it has been given specific responsibility to:

- develop, implement and promote national policies to foster international competitiveness of industry, enhancement of industrial, scientific, and technological development, and improvement in the productivity and efficiency of industry;
- promote the mobility of goods, services, and factors of production within Canada;
- develop and implement national policies to foster entrepreneurship and the start-up, growth, and expansion of small businesses;
- develop and implement national policies to promote and expand tourism;
- develop, promote and coordinate national policies and programs respecting industrial benefits from procurement of goods and services by the Government of Canada;
- promote and provide support services for the marketing of Canadian goods, services and technology;
- promote investment in Canadian industry, science, and technology.

ISTC REGIONAL OFFICE HIGHLIGHTS

Objectives

- to work directly with Canadian companies to promote industrial, scientific, and technological development;
- to help clients seize opportunities in a competitive international marketplace;
- to provide services in the areas of business intelligence and information, technology and industrial development, trade and market development;
- to promote and manage a limited portfolio of programs and major projects.

Special Competence

- access to trade and technology intelligence and expertise;
- entry points to national and international networks;
- industry sector knowledge base;
- International Trade Centres connected to EAITC posts abroad;
- client focus on emerging and threshold firms.

ISTC REGIONAL OFFICES

Newfoundland

Parsons Building
90 O'Leary Avenue
P.O. Box 8950
St. John's, Newfoundland
A1B 3R9
tel. (709) 772-4884

Nova Scotia

1496 Lower Water Street
P.O. Box 940, Station M
Halifax, Nova Scotia
B3J 2V9
tel. (902) 426-2018

Prince Edward Island

Confederation Court Mall
Suite 400
134 Kent Street
P.O. Box 1115
Charlottetown, P.E.I.
C1A 7M8
tel. (902) 566-7400

New Brunswick

770 Main Street
P.O. Box 1210
Moncton, New Brunswick
E1C 8P9
tel. (506) 857-6400

Québec

Tour de la Bourse, Suite 3800
800 Victoria Place
P.O. Box 247
Montréal, Québec
H4Z 1E8
tel. (514) 283-8185

Ontario

1 Front Street West
East Building, 4th Floor
Toronto, Ontario
M5J 1A4
tel. (416) 973-ISTC

Manitoba

330 Portage Avenue
Room 608
P.O. Box 981
Winnipeg, Manitoba
R3C 2V2
tel. (204) 983-6182

Saskatchewan

105 21st Street East, 6th Floor
Saskatoon, Saskatchewan
S7K 0B3
tel. (306) 975-4400

Alberta

Canada Place
Room 540
9700 Jasper Avenue
Edmonton, Alberta
T5J 4C3
tel. (403) 495-ISTC

British Columbia

900-650 West Georgia St.
P.O. Box 11610
Vancouver, British Columbia
V6B 5H8
tel. (604) 666-0434

Yukon

108 Lambert Street, Suite 301
Whitehorse, Yukon
Y1A 1Z2
tel. (403) 668-4655

Northwest Territories

Precambrian Building, 10th Floor
Postal Bag 6100
Yellowknife, Northwest Territories
X1A 1C0
tel. (403) 920-8568

ISTC REGIONAL DEVELOPMENT HIGHLIGHTS

Ontario (FedNor Head Office)

Suite 106, Queenscentre
473-477 Queen Street East
Sault Ste. Marie, Ontario
P7C 5P7
tel. (705) 942-1327

Quebec

Tour de la Bourse
Suite 3800
800 Victoria Place
P.O. Box 247
Montréal, Québec
H4Z 1E8
tel. (514) 283-8185

Objectives

- to promote economic development in areas of Quebec and Ontario where low incomes and slow economic growth are prevalent or where opportunities for productive employment are inadequate;
- to emphasize long-term economic development and sustainable employment and income creation; and
- to focus on small- and medium-sized enterprises and the development and enhancement of entrepreneurial talent.

Examples of Funded Programs for Small- and Medium-Sized Business:

- The Rural Small Business Assistance Program for Northern Ontario
- The Core Industrial Program for Northern Ontario
- The FEDNOR Loan Insurance Program
- The Enterprise Development Programs for the Resource Regions of Quebec
- The Manufacturing Productivity Improvement Program for the Central Regions of Quebec
- The Industrial Recovery Program for East End Montreal

WESTERN ECONOMIC DIVERSIFICATION CANADA (WD)

Head Office

15th Floor, Canada Place
9700 Jasper Avenue
Edmonton, Alberta
T5J 4H7
tel. (403) 495-4164
fax (403) 495-6222

Mandate

- to provide financial assistance to projects which contribute to the diversification of the western economy;
- to act as a pathfinder for western businesses to ensure that they are aware of and receive assistance from the most appropriate source of federal or other funding for their projects;
- to act as an advocate for the West in national economic decision-making;
- to coordinate federal activities which have an impact on economic growth in the West.

WD Assistance for Small Business

Approximately two-thirds of WD's funded projects have been for amounts under $100 000, funds which have tended to help smaller firms in their diversification efforts. In addition, small businesses can access federal purchasing through the Western Procurement Initiative. Under this program, the federal government will purchase an additional $600 million in goods and services in the West over a four-year period ending in 1992.

Levels of Assistance

From August 1987 to March 1989, 690 small business projects, representing 84.4% of all approved projects, received a total of $104.6 million in funding.

Inquiries about the Western Diversification program and other activities of Western Economic Diversification Canada are welcome, and can be directed to any of the following offices:

Edmonton

Suite 1500
Canada Place,
9700 Jasper Avenue
Edmonton, Alta.
T5J 4H7
(403) 495-4164

Saskatoon

Suite 601, S.J. Cohen Bldg.
119-4th Ave. South
PO Box 2025
Saskatoon, Sask.
S7K 5X2
(306) 975-4373

Vancouver

PO Box 49276
Bentall Tower 4
1200-1055 Dunsmuir Street
Vancouver, B.C.
V7X 1L3
(604) 666-6256

Winnipeg

Suite. 712
The Cargill Bldg.
240 Graham Avenue
Winnipeg, Man.
R3C 0J7
(204) 983-4472

ATLANTIC CANADA OPPORTUNITIES AGENCY (ACOA)

Head Office

Blue Cross Centre
644 Main Street
Moncton, NB
E1C 9J8
tel. (toll free) 1 (800) 561-7862

Mission Statement:

"The Atlantic Canada Opportunities Agency is a strategic partnership with the people of Atlantic Canada in the renewal of the Atlantic entrepreneurial spirit."

ACOA is based on the principles of partnership, shared risk, investment in the Atlantic region's economic future and the importance of working with all levels of government and the private sector to promote the region.

ACOA was created by an Act of Parliament and has been in operation since June 1987. In addition to the mandate to create and implement programs contributing to long-term economic development in Atlantic Canada, it also has a strong coordinating mandate over all federal activities which have an impact on the economic growth of the region.

Mandate:

Action: risk-sharing with entrepreneurs;
Cooperation: partnership with the provinces;
Coordination: focusing federal policies and programs on Atlantic Canadian economic opportunities;
Advocacy: promoting Atlantic interests in national policies and programs.

Levels of Assistance

From February 15, 1988 to August 4, 1989, ACOA received 12 816 applications, of which 6 016 were approved for grants and contributions of close to $600 million. These contributions leveraged an additional $1.7 billion in direct private-sector investment. They helped create 15 000 new jobs and maintain 18 000 existing ones. This assistance made it possible to establish more than 800 new plants, of which 50% were started by first-time entrepreneurs.

FEDERAL BUSINESS DEVELOPMENT BANK (FBDB)

Head Office

800 Victoria Square
Tour de la Place Victoria
Montreal, Quebec H4Z 1L4
tel. (toll-free) (800) 361-2126

The FBDB is the main federal agency involved in financing small business. There are four major areas in which the FBDB offers concrete assistance:

Financial Assistance

The FBDB offers term loans for the acquisition of fixed assets, the purchase of a business, refinancing, and for working capital purposes.

Through its Export Receivables Program, the FBDB provides guarantees to financial institutions for lines of credit extended to exporters. This guarantee can cover up to 90% of the value of the export receivables that are used as security.

The FBDB can purchase shares in a business, or work with private sector financial institutions to obtain equity financing. The FBDB can act as a sole investor, or it looks for investment from private venture capital organizations. It remains a minority shareholder and eventually divests itself of its shares.

Advice and Counselling

The CASE Program enlists successful retired business people to provide management counselling for any business with fewer than 75 employees. The FBDB can also assist with both financial packaging and strategic planning.

Skills Development

Working with provincial and territorial ministries of education, the FBDB offers 30-hour courses designed to improve management and business skills. It also offers half- and full-day business seminars.

Through the Community Business Initiatives program, the Bank provides specialized workshops for groups of approximately 30 business people. A project coordinator then visits their firms to discuss practical applications.

Publications

Minding Your Own Business is a series of factual pocketbooks that discuss important aspects of running a small business successfully.

Assistance to Business in Canada (ABC) Books offer a comprehensive reference to federal, provincial and territorial government assistance programs for small business.

Do-It-Yourself kits assist users in understanding basic business principles and putting them to practical use. They include work sheets, planning charts, checklists, and statement forms.

EXTERNAL AFFAIRS AND INTERNATIONAL TRADE CANADA (EAITC)

Head Office

125 Sussex Drive
Ottawa, Ontario
K1A 0G2
tel. (613) 996-8713*
fax (613) 996-8688

External Affairs and International Trade Canada serves Canadians at home and abroad and ensures that Canada's voice is heard internationally. The department achieves these goals by:

- supporting the export marketing efforts of Canadian business through the Trade Commissioner Service, and by enhancing access for Canadian goods and services in world markets;
- promoting Canada's economic, political, security, and other interests, both bilaterally and through international institutions;
- promoting foreign investment in Canada and tourism to Canada, as well as assisting Canadians to access foreign technologies in order to improve their competitiveness;
- providing development assistance and emergency relief in developing countries in co-operation with the Canadian International Development Agency (CIDA);
- managing Canada's immigration and refugee programs on behalf of the Canadian Employment and Immigration Commission;
- helping Canadians travelling or living abroad, and providing emergency assistance in cases of distress;
- advising the government on international developments and on the international implications of domestic policies;
- supporting the interests internationally of 30 federal government departments and agencies, and of provincial governments;
- providing administrative support to federal departments with personnel abroad, notably the Department of National Defence, the Royal Canadian Mounted Police, and Revenue Canada.

The most important forms of assistance administered by EAITC for the benefit of Canadian small business are the following:

- International Trade Centres are a network of regional offices co-located with ISTC to provide counselling, information, and financial assistance to help firms expand their exports;
- Program for Export Market Development (PEMD) will pay for part of the costs of marketing missions abroad;
- programs such as NEBS, NEXUS, and NEXOS expose Canadian companies to export and customs procedures in various parts of the United States and overseas;
- Technology Inflow Program identifies technology transfer opportunities and provides Canadian scientists and engineers with financial support to assist them in gaining first-hand knowledge of foreign technologies;
- the Trade Commissioners Service is a network of informed officers across Canada, in Ottawa, and in more than 110 offices abroad;
- WIN Exports is a data bank of the capabilities of Canadian companies, used by trade commissioners abroad to source Canadian suppliers of goods and services;
- information on foreign markets, and multilateral projects financed by international institutions such as the World Bank, the African Bank, or the Asian Bank.

* For International Trade Centres and Regional Operations (TPO)

NATIONAL RESEARCH COUNCIL CANADA (NRC)

Head Office

National Research Council Canada
Ottawa, Ontario
K1A 0R6
tel. 993-9101

The National Research Council works directly with Canadian firms of all sizes to develop and apply technology for economic benefit. To accomplish this goal, NRC maintains a national network for the diffusion and transfer of technology through the Industrial Research Assistance Program (IRAP).

This Technology Network also extends overseas. Through a combination of IRAP and the Technology Inflow Program (TIP) at EAITC, Canadian embassies and consulates abroad assist firms in identifying and obtaining access to useful foreign technology.

The delivery of IRAP services involves Industry Technology Advisors from NRC, provincial research organizations, Technology Centres, the Association of Consulting Engineers of Canada, the Canadian Construction Association, and project managers from NRC, other government departments, and universities. Also included are NRC's Industry Liaison Officers, and the EAITC's Science and Technology Counsellors and Technology Development Officers in Canadian posts abroad. IRAP services include:

- Field Advisory Service– a confidential "on-site" service for companies with limited technical resources;
- Undergraduate Projects– skilled hands and minds put to work on short-term technical problems;
- Short-term Projects– financial assistance for companies needing outside technical services;
- Medium-term Projects– salary support for company or sub-contracted personnel undertaking specific medium-term R&D projects;
- Long-term Projects– collaborative projects with government and university or foreign laboratories and Canadian companies.

EMPLOYMENT AND IMMIGRATION CANADA

Head Office

Place du Portage
Phase IV
140 Promenade du Portage
Hull, Quebec
K1A 0J9
tel. (613) 994-7141

Employment and Immigration Canada has responsibility for administering the Canadian Jobs Strategy which provides skills and work experience to some 400 000 Canadians annually. Part of the program includes support for small business and entrepreneurship in the form of training, business advice, and certain types of financial support in smaller communities.

The department's recently announced Labour Force Development Strategy involves increased assistance to the private sector for human resource planning and training, as well as special help for displaced older workers, job-related education for young people, and programs to support long-term economic revitalization of smaller communities.

Employment and Immigration Canada come into direct contact with Canadians through the Canada Employment Centres. Small business people can receive various kinds of assistance at the nearest Canada Employment Centre:

- help in finding qualified permanent staff either from the local labour market or through the National Job Bank;
- referrals to Agricultural Employment Services offices which help in recruiting casual, seasonal or permanent farm workers;
- help in screening and interviewing university students and graduates;
- Small Business Co-ordinators who can provide program information, counselling, and seminars to companies with less than 100 employees;
- a Human Resource Planning staff to help plan future employment requirements so businesses have the right number of workers with the right skills at the right time;
- help in locating and hiring foreign workers if appropriately skilled Canadian workers are unavailable;
- advice on how best to structure company unemployment insurance and supplemental benefits;
- meeting staffing needs by participating in on-the-job training through the Canadian Jobs Strategy.

APPENDIX B

SELECTED PROGRAM AREAS RELEVANT TO SMALL BUSINESS

BUSINESS INTELLIGENCE

BOSS

The Business Opportunities Sourcing System is a computerized data bank operated by ISTC in cooperation with participating provincial governments. It contains information on Canadian manufacturing and service companies. Used by Canadian Trade Commissioners abroad, BOSS is also available to domestic users wishing to locate appropriate Canadian suppliers, obtain market intelligence, or identify market opportunities. BOSS now includes more than 25 000 companies and 6 500 active users.

MARKET INTELLIGENCE

The Market Intelligence service provides Canadian business with detailed market information on a product-specific basis. The market information currently focuses on, but is not restricted to, information on imports into Canada. This not only offers information about a significant portion of the Canadian market, it is also an indicator of an internationally competitive product mix. Over the past few years, reports have been expanded to include Canadian and North American markets. The service has moved away from import substitution and toward provision of intelligence that will assist in exploitation of domestic, export, technology transfer, and new manufacturing investment opportunities. Two-thirds of the clientele for this service consist of small business.

INTERFIRM COMPARISONS

Interfirm Comparisons support industry's efforts to enhance competitiveness through assessment of the relative performance of firms manufacturing the same type of product or engaged in a similar type of activity. The program helps businesses improve productivity and profitability by providing them with analyses of their strengths and weaknesses in comparison to other firms in the same sector. The majority of the firms involved in this program are small businesses.

PROGRAMS OF EXPORT ASSISTANCE

Program for Export Market Development (PEMD):

Administered by External Affairs and International Trade Canada (EAITC), this program seeks to increase export sales by sharing the costs of industry-initiated activities aimed at developing export markets. Activities eligible for PEMD financial support (up to 50% of the costs) include:

- participation in recognized foreign trade fairs;
- trips to identify export markets, and visits by foreign buyers to Canada;
- project bidding, or proposal preparation at the pre-contractual state, for projects outside Canada;
- the establishment of permanent sales offices abroad (excluding the United States) in order to undertake sustained marketing efforts;
- special activities for non-profit, non-sales food, agriculture, and fish organizations, marketing boards and agencies e.g., trade fairs, technical trials, and product demonstrations.

Support is also provided for certain types of government-planned activities, such as outgoing trade missions of Canadian business representatives and incoming missions to Canada of foreign business and government officials who can influence export sales.

Other support for export missions:

In addition to financial support through PEMD, EAITC sponsors several programs to assist companies that are ready to export.

New Exporters to Border States (NEBS):

missions take groups of business people through the entire process of exporting, including documentation, customs clearance procedures, discussions of banking, insurance, agents and distributors, as well as a visit to a U.S. border post.

New Exporters to the U.S. South (NEXUS):

helps companies that have traded just across the border to expand their activities into other U.S. regional markets by involving them in sectoral missions, trade fairs, and briefings.

New Exporters to Overseas (NEXOS):

uses similar means to encourage companies that have traditionally exported to the U.S. to consider markets offshore.

SELECTED FEDERAL TECHNOLOGY PROGRAMS

Technology Outreach Program (ISTC):

Accelerates the acquisition, diffusion and development of technology and technical skills, especially among small-and medium-sized firms. Supports the establishment of technology centres run by private sector non-profit organizations. Centres now in operation include the Management of Technology Institute of Canada, the Canadian Plastics Institute, the Welding Institute of Canada, the Canadian Advanced Industrial Materials Forum, and Innovation Centres in Waterloo and Montreal.

Industrial Research Assistance Program (National Research Council):

Canada's longest and most successful industry development program, IRAP helps firms improve their capability in R&D and technology. The program serves 5 000 firms every year, and has assisted 75 000 companies since its inception. Assistance is provided through field offices and through subsidies for students and specialists working on short term projects. The focus is mainly on small firms—more than 80% of the firms helped have fewer than 200 employees. IRAP will pay the salaries of technical personnel for small firms, up to a limit of $100 000 per project. Eligible small companies must be incorporated and have fewer than 200 employees.

Technology Liaison Directorate (ISTC):

This office assists firms in identifying business opportunities involving new product lines and processes originating from innovative Canadian and international technological developments.

Technology Inflow Program (ISTC, External Affairs and the National Research Council):

The program is designed to help Canadian companies locate, acquire and adopt foreign technologies. Since Canada produces only 2% of the world's technology, adopting new product and process technologies from foreign sources is critical to competitiveness. More than 30 trained officers, posted in 24 diplomatic and trade posts in the U.S. and abroad, respond to requests to identify technology sources and opportunities for cooperation between Canadian and foreign firms. Funding is also provided for exploratory visits abroad by Canadian business people to identify or negotiate for foreign technologies.

Advanced Manufacturing Technology Application Program (ISTC):

Delivered through ISTC local offices, this program provides financial assistance to firms to undertake assessments of their manufacturing and technological capabilities and devise ways of applying advanced technology to improve their competitiveness.

Strategic Technologies Program (ISTC)

ISTC provides financial assistance to develop competitive strength in three key generic technologies: information technologies, advanced industrial materials, and biotechnology. The focus is on the support of alliances among companies, universities, and research institutes for the purpose of carrying out precompetitive R&D or pre-commercial development of leading-edge technology applications.

Patent Information Exploitation Program (Consumer and Corporate Affairs)

Designed to make technological information in the patent system more readily accessible, in order to ensure rapid and efficient transfer of technology, promote industrial innovation, and eliminate duplication of efforts. The program offers a technological search service as well as a technological forecasting service based on patent information. Both can assist small firms.

SELECTED FEDERAL PAPERWORK REDUCTION INITIATIVES

Revenue Canada (Taxation):

- produced new easier-to-use guides and forms designed for small firms;
- strengthened consultations with small business associations.

Statistics Canada:

- shift from survey to tax data resulted in significant paperwork reductions;
- small businesses allowed to respond to surveys by telephone;
- in 1988, businesses with less than $250 000 in gross business income no longer required to provide annual financial data.

Canada Employment and Immigration Commission (CEIC):

- regulations governing collection of UI premiums changed to simplify paperwork for employers;
- paperwork required for Canadian Jobs Strategy simplified.

Transport Canada:

- simplified and reduced forms and procedures affecting small business in the aviation sector;
- simplified lease and license agreements for small business operators in airports.

Supply and Services:

- implemented electronic bulletin board system for government printing requirements;
- new short form contract is now used for most contracts;
- one-stop sourcing registration system put in place;
- established a control centre for questionnaires and information collection to ensure there is no duplication in collection from businesses.

Customs and Excise:

- simplified and accelerated procedure for claiming refunds of duties paid instituted;
- new forms make it simpler to provide information on accounting for imported goods;
- dollar limit for reports on exported goods was raised from $900 to $2 000.

Western Economic Diversification:

- applicants need only provide a brief written description of their proposals. Formal applications are not required.